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ECONOMIC OVERVIEW 1984

Medium term Corporate Forecasts

Report No. 845

The Conference Board

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Economic Overview 1984
Medium Term Corporate Forecasts (E.O.-7)
Conference Board Report No. 846

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The Conference Board, Inc. (Europe)

ECONOMIC OVERVIEW MEDIUM TERM CORPORATE FORECASTS

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A. For the next issue of this Overview and for one or several of the countries listed would you like :

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Canada			
Denmark			
Finland			
France			
Germany			
Greece			
Ireland			
Italy			
Japan			
Mexico			
Netherlands			
Norway			
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Other countries please indicate			

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- to give prospects for macro economic aggregates ?
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Function :
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Company activity :
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Please send your answer to : Dr. Frank Wittendal, Director of Economic Research
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Economic Overview 1984

Medium term Corporate Forecasts

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Notes:

1. *To avoid the complexities of the different statistical definitions used by institutes in Europe all figures (except where explicity stated or obvious) are in « real » or volume terms (that is, net of inflation) expressed as percent changes on the previous year or, for parts of a year, on the same period of the previous year. In this form alternative definitions are usually sufficiently comparable for their differences to be well within the normal margin of forecasting error. For simplicity and clarity we have therefore excluded most footnotes, and have plotted some leading indicators against synthetic scales. Those wanting more detail or elaboration are referred to the sources quoted on page 46 or are invited to get in touch with our research staff.*

2. *When quoting some institutes' forecast of growth rates, the number of digits following the decimal point does not pretend to be more accurate than a 1/4.*

3. *GNP: Gross National Product (nation-concept).*
   GDP: Gross Domestic Product (territory-concept).

4. *% = percent.*

5. *1 bn (billion) = 1000 mn (million).*

6. *1 tr (trillion) = 1000 bn*

Why this report

The economic situation has been changing rapidly in 1983, with contrasting trends in Europe and the United States. Changes are also likely to be important in 1984. Companies need to incorporate these new trends in their global assessment of their operation environment.

This seventh edition of the Economic Overview conveys the opinions and commentaries of 350 business economists in North America, Europe, Japan and Mexico. The views of these economists from the private sector, on the short and on the medium term, are of special relevance since they represent a framework of economic information that is taken into consideration by their respective corporations. In turn, these corportions and others like them are the engines for future economic growth.

The Conference Board is most appreciative of the contribution of corporate economists in providing the information required for this comparative analysis.

James T. Mills
President

MEDIUM TERM OUTLOOK: Survey of Corporate Forecasts

Brown figures: previous forecasts (Yearend 1982)
(or estimates for 1982)

Black figures: current forecasts (Yearend 1983)
(actuals for 1981, 1982; estimates for 1983)

GNP/GDP GROWTH RATES (real terms)

INFLATION RATES

	1981	1982	1983	1984	1985	1986	1987	1981	1982	1983	1984	1985	1986	1987
BELGIUM	-1.0	1.2 0.7	0.0 0.2	1.8 0.8	2.0 3.0	1.7 1.7	2.5 2.5	7.6	8.8 8.7	7.5 7.6	7.0 6.5	6.0 6.0	5.5 5.5	5.5 5.5
DENMARK	0.1	1.5 3.1	0.0 2.0	3.0 2.5	3.0 2.6	3.0 2.8	3.0 2.6	11.7	10.0 9.8	8.0 7.0	7.0 6.0	7.0 6.0	5.0 5.5	6.5 5.0
FRANCE	0.2	1.0 1.9	1.0 0.1	2.5 1.5	3.0 2.1	2.8 2.0	1.9 1.9	13.4	11.7 11.8	10.5 9.2	11.0 8.0	11.5 8.0	11.0 7.0	10.5 7.0
GERMANY	-0.2	1.2 -1.1	0.0 1.0	2.9 2.7	2.7 2.5	2.7 2.2	2.6 2.5	5.9	5.3 5.3	4.0 3.0	4.0 4.0	3.5 3.5	3.5 3.5	3.5 3.5
IRELAND	0.3	1.5 -0.3	1.0 1.0	2.0 2.0	1.8 2.0	1.0 1.0	2.0 2.0	20.4	17.1 17.1	13.0 10.6	12.0 10.0	12.0 9.0	10.0 8.0	9.0 8.0
ITALY	-0.2	1.0 -0.3	1.7 -1.0	3.0 2.0	2.2 2.1	2.2 2.0	1.5 1.5	18.0	16.5 16.0	15.2 13.0	13.7 12.0	12.0 12.0	11.4 12.0	11.7 11.5
NETHERLANDS	-1.8	1.0 -1.5	0.0 0.0	2.0 2.0	1.6 1.3	2.5 2.0	1.5 1.7	6.5	5.5 5.5	3.5 2.6	3.5 3.0	3.0 3.5	3.0 3.5	3.0 3.0
UNITED KINGDOM	-2.8	0.5 2.3	1.7 2.3	1.9 2.5	1.5 1.5	1.3 1.3	1.8 2.0	11.9	8.6 8.4	7.3 4.7	8.3 7.5	10.1 9.0	9.8 9.5	9.3 9.5
EC (weighted average)	-0.8	0.3 0.6	0.8 0.7	2.5 2.1	2.4 2.1	2.3 1.9	2.0 2.1	11.0	9.5 9.4	8.1 6.6	8.2 7.0	8.3 7.1	7.9 7.0	7.6 6.8
AUSTRIA	0.0	0.0 1.1	4.5 -2.0	1.8 2.0	2.0 2.0	1.2 1.5	2.5 2.0	6.8	5.4 5.5	4.5 3.2	4.0 4.5	4.5 4.0	4.0 4.0	4.0 4.0
FINLAND	1.0	2.0 3.0	2.0 1.8	2.2 2.2	2.8 2.8	2.5 2.5	2.7 2.7	12.0	9.0 9.0	9.0 9.0	9.0 8.0	8.5 7.5	8.0 7.0	8.0 7.0
NORWAY	0.0	0.0 -0.6	1.6 1.5	2.5 1.8	1.8 2.0	2.0 2.0	2.0 2.0	13.6	11.3 11.2	10.0 8.5	9.0 6.8	8.5 8.0	9.0 7.5	8.5 7.0
SPAIN	0.3	1.3 1.1	2.5 0.0	3.0 1.5	2.0 2.5	2.0 1.9	1.5 2.0	14.6	14.5 14.4	16.0 13.0	16.0 10.5	14.0 9.0	12.0 8.0	12.0 8.0
SWEDEN	-0.6	0.0 0.6	1.5 1.7	2.0 1.7	2.4 2.5	1.5 1.5	1.8 1.8	11.6	10.5 10.3	12.0 10.7	8.5 8.0	8.5 8.5	8.0 8.0	7.5 8.0
SWITZERLAND	1.9	1.7 -1.2	1.0 0.0	1.5 1.0	2.0 1.8	1.3 1.0	1.5 2.0	6.5	5.5 5.7	4.5 3.0	4.0 2.8	3.5 3.0	3.5 3.0	3.5 3.5
WESTERN EUROPE (weighted average)	-0.5	0.1 0.6	1.0 0.6	2.4 2.0	2.3 2.1	2.2 1.9	2.0 2.1	11.1	9.6 9.6	8.5 7.1	8.5 7.1	8.4 7.1	8.0 6.9	7.7 6.8
CANADA	3.0	5.2 -4.4	2.3 2.8	5.5 2.8	5.0 0.9	3.8 1.4	3.0 3.0	12.5	10.9 10.8	7.7 5.4	5.2 4.3	5.0 5.1	5.5 4.7	5.7 3.0
MEXICO	8.1	1.2 -0.2	5.0 -6.0	0.0 0.0	1.5 2.5	4.0 5.5	7.0 6.0	27.9	98.8 58.9	60.0 101.0	20.0 20.0	15.0 9.0	10.0 5.0	5.0 5.0
USA	1.9	1.8 -1.9	2.7 3.4	2.7 3.8	2.2 2.5	1.7 2.0	2.8 2.0	10.2	6.1 6.1	6.1 3.2	5.8 5.0	7.9 5.5	7.4 7.0	5.9 5.5
JAPAN	2.8	2.5 2.5	3.0 3.2	4.0 3.6	4.5 4.5	4.0 4.0	3.5 3.5	4.0	2.5 2.5	3.5 1.9	3.0 3.0	3.0 3.0	4.0 4.0	4.0 4.0
Overal weighted average [1]	1.1	0.4 -0.3	1.9 2.2	2.9 3.0	2.7 2.6	2.4 2.3	2.7 2.3	9.7	9.5 7.1	8.1 4.6	6.7 5.5	7.4 5.7	7.0 6.4	6.3 5.7

(1) Mexico not included.

Introduction

In 1983, the GDP (Gross Domestic Product) of Western industrialized countries grew by 2.2 %. This performance resulted mainly from a rapid recovery in the United States (+ 3.4 %) and a continued growth in Japan (+ 3.2 %). In contrast, in Western Europe the recovery came later and was slow (+ 0.6 %) despite good developments in the United Kingdom (+ 2.3 %) and in the Nordic countries (+ 1.5 to 2 %). In Germany, GDP increased only 1 % in 1983. In France and in Spain, there was stagnation and in Italy a 1 % decline.

For Western industrialized countries taken as a group, inflation dropped from 9.7 % in 1981 to 7.1 % in 1982, to 4.6 % in 1983. This reduced inflation rate reflected developments mostly in the United States where the rate of growth in the Consumer Price Index fell from 10.2 % in 1981 to 6.2 % in 1982, to 3.3 % in 1983.

Capacity utilization and inflation reduced by monetary policies

An immediate - and somewhat simplistic - observation about 1983 developments would be to say that those countries where the rate of inflation was most reduced are also those countries with the better growth performances : the United States, Japan, and the United Kingdom. However, one may further observe that in the United States and in the United Kingdom both low inflation and rapid growth resulted from the 1980-82 recession which was more accentuated than in any other reviewed in this Economic Overview. In the United States and in the United Kingdom, the level of industrial production was not higher at the end of 1982 than it was at the end of 1976. In contrast, in other countries with slower growth in 1983 (and an inflation rate that was not as rapidly decelerating as in the United States or the United Kingdom), the 1980-82 recession had been weaker and the level of activity at the end of 1982 was generally comparable to that at the end of 1978.

Inflation fell mostly as a result of shrinking demand and lower wage claims which resulted from the recession. Hence, a tighter money supply had at best an indirect effect on inflation. The direct effect of tighter money supply was to boost interest rates and to depress investment. Gross fixed private investment dropped dramatically in the year following the implementation of monetary policies : – 7.5 % in the United Kingdom in 1981 and – 6.3 % in the United States in 1982.

In the long term, the strength of a currency is linked to trade performances not to monetary policies.

In actual fact, there is for each country a relatively stable relation between the rate of capacity utilization and the level of inflation. In past years monetary policies have attempted to sever this relation and to force inflation lower than in previous years for a given rate of capacity utilization. At present, since both industrial output and price increases have been affected (both of them being reduced) by monetarist-inspired policies, there is no evidence of success. In the future, the relation between inflation and capacity utilization will not be changed by controlling monetary aggregates but will continue to be correlated to the external trade competitiveness of the country. In the long term, only countries which are able to increase their share of world exports or, more precisely, of total exports from leading exporting countries, and to generate a trade surplus sufficient to balance non-productive domestic expenses, can expect their currency to be strong and their inflation rate to be low. Monetarist policies may help to achieve these goals but they could also act as an obstruction.

In recent years developments in some countries have deviated somewhat from the above-mentioned relationships. In Japan, for example, the currency was weak despite a trade surplus and an increased share of world exports. However, inflation remained low. A weak currency and a low inflation rate permitted Japan to go through the 1980-82 recession with fewer problems than in most other countries. But the weakness of the currency resulted from specific factors such as the high domestic savings ratio and the attraction of the United States dollar and interest rates on capital that could have been invested in Japan. In contrast, in the United States, despite a massive trade deficit and a continuing decline in their percentage of world exports, the currency was unexpectedly strong. This was caused by tight money supply which resulted in the maintenance of high interest rates. Additionally, the other Western industrialized countries found it expedient to have a strong United States currency guaranteeing the stability of the entire international monetary system. Furthermore, when such a currency as the United States dollar which is still considered the International Reserve Currency is strong for several years, it acquires an additional power of attraction which is cumulative since it leads to further strengthening.

If one looks at past decades, one sees long periods characterized by a strong dollar coinciding with a United States trade deficit. However, one also sees that those periods ended with a weakening of the dollar vis-à vis the currencies of countries which were gaining an increased share of world exports. Only those people who have forgotten that the average value of the dollar was 4 Deutschemarks in the 1960's can conclude that today the German currency is weak against the United States dollar.

One of the pressing problems of the 1980's is that government policies are not at all in harmony with the basic economic trends which point toward an official recognition of the Deutschemark and the yen as international reserve means, while countries try to solve the question of monetary stability mostly by means of domestic measures and policies. They do not pay enough attention to the major factor of interdependence in trade and economic relations, a crucial factor which creates a need for a stable and healthy international monetary system. Such a system is vital to consolidate the basis of confidence for free trade and to insure the credibility of future businesses which today have to be scaled at world level. The business world knows that the nature of money is trust. Today, this trust is too highly dependent on national policies.

Risks of deflationary policies

The real danger in present policies is that they seem to work. Inflation is reduced. Output and profitability are picking up. Investment as well as exports are expected to rise rapidly in 1984. And governments anticipate spontaneous solutions to their budget deficits.

1. Inventory building and exports

What is most surprising in the 1984 scenarios is that almost every country in Western Europe expects to "gain market shares" with its exports. Since world trade has to be considered as a zero sum game, this means that those market shares would have to be taken from the United States and Japan. But those two countries also anticipate an increase in exports at a rate not lower than that of Europe. In such prospects there is some inconsistency which cannot be explained by statistical aberrations (such as the usual 1 % difference between the volume of world exports and the volume of world imports and the $ 50 to $ 100 billion "missing" in the world curent account balance).

Actually, what is happening is a boom in export markets which is following the recovery and results from bottlenecks in specific industries at national levels. The bottlenecks are due to the slow adaptation to higher rates of capacity utilization - due to the cost of borrowing and, particularly in Europe, the risk of rapidly increasing employment. In addition, in some countries, domestic prices remain more or less under control. Or following government austerity measures, expectation of domestic price increases remains low. Hence, on the demand side there is an overall increased propensity to import, and on the supply side an increased incentive to export. With aggregate domestic inflation being no more than 4.6 % in 1983 in Western industrialized countries, world commodity prices, other than oil, tended to increase rapidly. According to "the Economist" (1), the dollar price index at the beginning of December 1983 compared with the same period in 1982 was up 21.6 % for food and 14.1 % for industrial goods. If those prices are calculated in currencies other than the United States dollar, rises are even more marked (for example in U.K. pounds, it is 37 % for food and 28.6 % for industrial goods). These increases are likely to continue and could also be amplified because the United States manufacturers will intensify their participation in the boom of world trade and, hence, aggravate some of the bottlenecks in their domestic market, thus leading to increased import requirements. The Winter 1983-84 and its impact on supply in the United States is therefore crucial in appreciating these prospects.

What has to be understood is that any rapid increase in the proportion of supply emanating from imports generally means longer delays for shipments and, hence, an increased inventory requirement. The process is cumulative and accelerated by the discrepancy between low domestic inflation and rapid increases in export-import prices. What we see at present is sharp rises in new export orders which in fact do not correspond to the growth of final demand but to inventory accumulation. The signal that the turning point in this cumulative movement has been reached will be given, either by a resurgence of domestic inflation, or several quarters of weakening of the U.S. dollar. However, high interest rates will somewhat limit the import-export induced inventory building.

2. Private investment and cost of borrowing

Another risk in the forecasts is the development of private investment. In the view of most forecasters, investment will play an increased role in future medium term expansion. Such a view is in conflict with moderate prospects concerning consumption, especially in Europe. In addition, interest rates are high and are expected to remain high. The yield of long-term government bonds in the United States has been more than 10 % on average in 1983 (i.e. a real interest rate of about 7 %). Admittedly, if national fiscal practices are taken into consideration, the actual cost of borrowing is lower. However, at present, corporate borrowing remains far more expensive than in the seventies when real long term interest rates were negative, or in the sixties when they were maintained between 1 and 2 %. Hence, after a "boom" period of two to three years (starting at the end of 1982 for the United States and at mid-1983 for most other countries), a depression or "bust" may follow once it is realised that in the long-term business profits do not correspond to those shown in the figures of the early months of the recovery - and when profitability is compared with the cost of financing. The « bust » period could be accentuated by expectations of shrinking world trade prices and the resulting effect on inventories.

(1) *The Economist* 10-16 December 1983, page 97

3. Interdependency in financial markets

Some experts say we cannot compare the present period with the 1920's - when major countries were placing emphasis on safeguarding the exchange rate and enforcing deflationary policies - because in the 1920's deflation really meant that consumer prices were falling. But this argument is not valid since the information we have on consumer prices in the 1920's includes a far lower proportion of services than today. If goods only were taken into consideration in today's price indices, it would appear that consumer prices are falling in some countries. This is even more evident if only goods newly introduced into the manufacturing process are taken into consideration. These goods (such as microelectronics, robotics, etc. at present) are those showing the most rapid expansion and their production is attracting an increased proportion of investment, a situation which is again very similar to that of the 1920's.

At a meeting in Rotterdam last October, Henry Kaufman spoke about "the Emerging Global Equity Market". He pointed out that the size of equity markets outside the United States will continue to expand rapidly. And he said "around-the-clock equity trading will become common". (1)

The internationalization of equity and financial markets means increased global economic interdependency. Any sudden change in one market has and will have more influence on others. Furthermore, government borrowing requirements have had and will continue to have more influence, worldwide, on the conditions of corporate financing. Certainly, the regulation of financial markets today is far more sophisticated and cannot be compared with sixty years ago. But the volume of accumulated country debt is a new element to be taken into consideration in understanding the present strength of the system. Therefore, a simultaneous rescheduling of major country debts with a crisis of business confidence is something to be prevented in the coming years.

(2) A talk by Henry Kaufman of Salomon Brothers, Inc. at the Robeco Jubilee Symposium on « the Share in Future Society » - Rotterdam, the Netherlands, October 7, 1983.

Short term prospects look good

However, there is some optimism for the near future. In actual fact, economic policies in 1984 and 1985 will be the key elements in judging whether the risk inherent in last years deflationary policies will be aggravated or reduced.

The projection from the survey of corporate forecasts for 1984 shows little change from that of end 1982. Expansion will continue in the United States, with GNP growing by some 3.8 % (a rate lower than expected by forecasting institutes) and inflation maintained at 5 % or less. In Japan, GNP is anticipated to rise 3.6 %. In Western Europe, GDP growth will accelerate, from 0.6 % in 1983 to 2 % in 1984. Germany (+ 2.7 %) and the United Kingdom (+ 2.5 %) are expected to lead in Europe. A 2 % GDP expansion will characterize Nordic countries as well as Italy, the Netherlands and Ireland. Growth will however remain weaker, between 1 % and 1.5 %, in France, Spain and Belgium. Regarding inflation in Europe, there seems to be a consensus that it will not be reduced from the 7.1 % average figure of 1983. However, this figure covers different trends. While inflation is expected to increase slightly in those countries where it was reduced in 1983 (e.g. Germany and the United Kingdom), it is anticipated to drop in other countries such as France (from 9.2 % in 1983 to 8 % in 1984) and Italy (from 13 % to 12 %).

Dollar to weaken against the Deutschemark

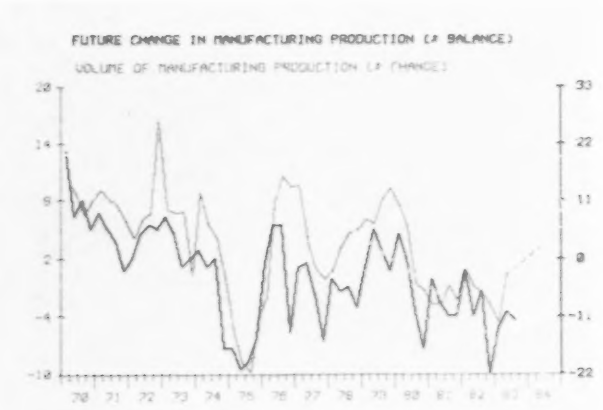
There seems to be a consensus that on average in 1984 the United States dollar, although weaker than at present, will remain relatively strong against European currencies. Changes expected in the Deutschemark value expressed in U.S. dollars (+ 6 %) and in the French franc value expressed in U.S. dollars (− 4,5 %) imply a more than 10 % appreciation of the German currency vis-à-vis the French and, hence, suggest the likelihood of a readjustment in the European Monetary System in 1984.

F.W.

Austria

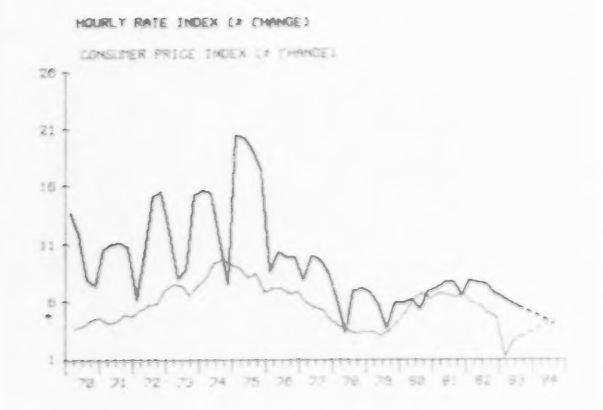
Tighter budgetary policies

Unlike many other Western industrialized countries, Austria did not experience a deep recession in 1981-1982. Hence the slow growth of 1983 cannot be qualified as a « recovery ». However, the growth demonstrates that the decline in economic activity which characterized most of 1982 now seems to be overcome. The government has planned to reduce the budget deficit from about 6 % in 1983 to 5 % in 1984. This is to be achieved by means of cuts in public spending, increased taxation and higher social security contributions. Therefore, since private consumption which was the driving force behind Austria's economic growth in 1983 is now dampened by decreasing real income, some forecasters expect almost no GNP growth in 1984, with private consumption declining. Such views appear to be overly pessimistic since both industrial output and orders are showing a cyclical upturn since mid-1983. In addition, in 1984 as well as in 1983, exports will probably increase to 1 to 2 percentage points more than imports and lead to an increased surplus of payments. This will permit the monetary authorities to provide the economy with enough liquidities to maintain low interest rates which will favour a recovery of business investment as soon as higher capacity utilization rates are recorded.



Private consumption, the driving force in 1983

Private consumption has been the most significant growth factor in 1983. In the first half of the year compared with the same period a year ago, it grew by nearly 3.5 %. Domestic demand for consumer durables rose most rapidly with automobile sales rising 20 %. However, these developments may have resulted primarily from a proposal to introduce a tax on interest earnings which led some investors to convert financial assets into precious goods and cars. Private consumption of non-durable goods remained weak. Industrial production recovered rapidly in 1983, but due to its low level at the end of 1982, estimates for 1983 do not show more than 1.5 to 2 % growth. New orders, boosted by domestic demand of durable goods (i.e. consumer and investment goods) and by exports, increased fast in 1983. Many forecasters believe that private consumption will not be the driving force in 1984 that is was in 1983 and will be replaced by investment and export demand.



Low inflation but declining real disposable income in 1984

Due to relatively low rises in average earnings (less than 5 % in 1983), inflation went down from 5.4 % in 1982 to less than 2.5 % at mid-year 1983. Thereafter, higher food prices and raw material price pushed consumer prices up again. Hence, the inflation rate in 1983 was around 3.2 %. In 1984, despite low wage settlements (i.e. an average increase of 3.8 %), inflation is anticipated to accelerate to 4 to 5.5 %. This will result mainly from rises in food prices due to poor agricultural production and increases in value added taxes. Unemployment remains low (3.9 % in 1983) but continues to increase. A 5 % unemployment rate is expected in the course of 1984, mainly because there are now few possibilities for absorbing unemployment by means of a repatriation of foreign workers.

		1982	Girozentrale Vienna Sept. 1983		WIFO Sept. 1983
		Actual in the local currency	real terms, percentage		as year
			FORECASTS 1984		
GDP/GNP		1132.5	1.5		1/2
TOTAL GROSS FIXED INVESTMENT		263.0	1.5		3/4
PUBLIC INVESTMENT		—			—
PLANT AND MACHINERY		110			1 1/2
CONSTRUCTION		139.7	3.0		0
PRIVATE CONSUMPTION		640.1	0.75		– 1
PUBLIC CONSUMPTION		212.7	2.0		1 1/2
EXPORTS (of goods and services)		472.4	1.5		1 3/4
IMPORTS (of goods and services)		446.3	2.5		1/4
CONSUMER PRICE INDEX		5.4	4.0		5.3
Balance of payments on current A/C (billion)	A.S.	12.2	10.7		16.2
	$				
CURRENCY UNIT PER US $		37.06	17.5		18.0

Medium-term outlook: slow growth sustained by investment and exports

1983 developments were less favorable than expected by most economists who participate in the survey of corporate forecasts. However, their prospects for 1984 show more optimism than those of banks and forecasting institutions. Corporate economists anticipate GNP to grow by 2 % in 1984, with private investment increasing 3 % and private consumption 1.5 %. They expect expansion to continue throughout 1987, although some slowdown in anticipated in 1986. There is a consensus that private consumption will no longer be the driving force in the coming 4 years. Anticipated average yearly growth is 2.2 % for private investment and 1.7 % for private consumption. The underlying assumption in those prospects is that exports will be an important factor in growth. This is implicit, not only when looking at GNP expansion but also at the expected payments surplus.

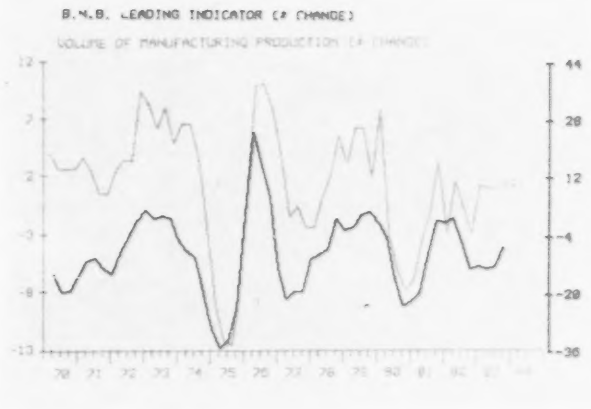
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	0.8	1.5	3.1	2.5	1.0	2.0
GNP/GDP	1.1	– 2.0	2.0	2.0	1.5	2.0
GROSS FIXED PRIVATE INVESTMENT	5.4	– 2.5	3.0	1.6	1.5	2.5
PRIVATE CONSUMPTION	1.1	2.8	1.5	2.0	1.5	2.0
BP CURRENT ACCOUNT (% GNP)	0.6	0.8	1.0	0.2	0.4	0.4
CONSUMER PRICES	5.5	3.2	4.5	4.0	4.0	4.0
PRODUCTIVITY	1.7	1.5	2.0	2.3	2.2	2.2
TOTAL WAGE BILL PER EMPLOYEE	6.1	5.0	4.0	4.5	5.0	5.0
UNEMPLOYMENT (% LAB. FORCE)	3.7	4.3	4.8	5.0	4.5	4.5
NUMBER OF CURRENCY UNITS PER US $	37.06	18.5	18.5	18.0	17.0	17.0

Belgium

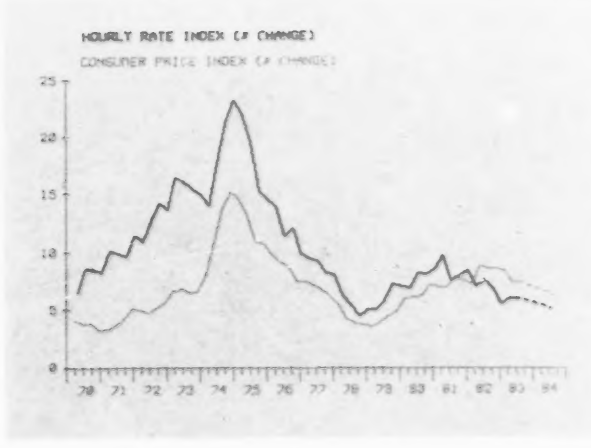
The crucial problem of the public sector deficit

There is a consensus among forecasters that the recovery started in 1983 will continue in 1984, with GNP growth ranging from 0.5 to 2 %. However, due to little or no increase in real disposable income following a decline in 1983, private consumption is expected to be reduced by 0.5 % to 1 % in 1984 (after − 1 % in 1983). Hence, growth will emanate from investment (and mainly from private investment in plant and machinery) and exports (+ 3 % to + 5 %). Slower growth of imports will result in an external trade surplus in 1984. In 1984, as well as in 1983, the government budgetary and monetary policy will be aimed at strengthening competitiveness by means of less non-productive spending. Despite pressure from labour unions, the government will continue to make more efficient and cost effective the functioning of public utilities and to fix ceilings for the indexing of public service pensions. It will also continue decentralizing budgets from national to local administrations, thus giving to the latter more responsibility in raising incomes. However, the government measures taken to support the very depressed housing sector (i.e. reduced taxes, subsidies to social welfare housing, fiscal amnesty for unreported income invested in new housing, etc.) contrasted with the general aim of reducing the public sector deficit. In addition due to the burden of the public debt which grew by BF 565 bn in 1983, the central government borrowing requirements although declining, still represent about 12 % of GNP, one of the highest figures in all the Western industrialized countries.



A slow recovery in 1983

Output in manufacturing industries was recovering slowly in 1983. In the first half of the year, the index of industrial production (construction excluded) showed a 0.8 % growth rate when compared with the same period a year ago. While significant progress characterized industries producing consumer durable goods (+ 3.4 %) and investment goods (+ 2.8 %), activity remained stagnant for consumer non-durables and depressed for semi-finished goods such as steel. The sharp recession continued in the construction sector in which output dropped by 20 % in the first half of the year (following − 4.6 % in 1982 and − 17.6 % in 1981); and housing permits decreased by 24 %. However, production was improving in the non-residential sector (+ 16.6 % in the first half of 1983 compared with same period a year ago). At the end of 1983 surveys of business opinions pointed towards an improvement.



Inflation is reduced, but not rapidly enough

Although hourly wage rates increased by less than 4 % if one compares June 1983 with June 1982, the inflation rate was reduced from 8.7 % in 1982 to about 7.7 % in 1983. In the last months of 1983, the annual rate of inflation was between 6 and 7 %. The slowing down of inflation is even more apparent if one considers the wholesale price index which grew by only 4 % during the first three quarters of 1983, compared with 8.2 % in the corresponding period of 1982. Lower inflation in Belgium, as in many other countries, resulted from lower domestic demand and weaker output. Hence, unemployment rose from 12.3 % of the civilian labor force in 1982 to about 12.6 % in 1983. This trend is growing unemployment is not expected to be reversed before the end of 1985.

	1982	SGB	BBL	Kredietbank	DULBEA	IRES
		Oct. 1983	Nov. 1983	Sept. 1983	Sept. 1983	Oct. 1983
	Annual (in local currency)	Figures in real terms, percentage change on previous year				
		FORECAST FOR 1984				
GDP/GNP	3962.9	0.5	1 1/2	1.0	1.5	0.7 to 1[1]
TOTAL GROSS FIXED INVESTMENT	977.1	1.6	3.2	4.0	2.0	− 1.5 to + 3.2
PUBLIC INVESTMENT	526.1	0.0	0.0	0.0	1.0	− 7.3
PRIVATE INVESTMENT	397.2	2.2	5.0	6.0	6.0	2.5 to 7.5
HOUSING	133.8	1.5	0.0	2.5	0	− 3.0
PRIVATE CONSUMPTION	2509.6	− 2.6	1.0	− 1.0	− 1.0	− 0.5
PUBLIC CONSUMPTION	740.3	− 1.3	1.0	− 1.0	1.0	− 0.5
EXPORTS (of goods and services)	2729.2	5.1	4 1/2	6.0	6.0	3.3
IMPORTS (of goods and services)	2786.1	2.2	2.0	4.5	3.5	0.7 to 1.2
CONSUMER PRICE INDEX	8.7	5.6	5 1/2 to 6	6.0	6.0	5.5
BALANCE OF PAYMENTS ON CURRENT A/C - (billion) $ BF	128.0	− 30	− 40	0	0	—
CURRENCY UNIT PER US $	46.9	—	50	50.83	50	—

(1) GDP: 0.9 to 1.2

Medium-term outlook : a continued improvement

Concerning 1984, the figures from the survey of corporate forecasts do not differ much from those of financial institutions and banks. According to corporate economists, GNP will increase 0.8 % in 1984 with private investment showing a recovery (+ 3 %) and private consumption still depressed. Corporate economists seem confident that the recovery will accelerate in 1985 with a 3 % GNP growth rate (i.e. private investment + 2.7 % and private consumption + 1.5 %). However, some slowing down is expected to occur in 1986. The prospects for inflation are that it will be further reduced to between 5 and 6 % in the coming years. Hence, the yearly increase in wage costs is also expected to drop to a similar rate. Reduced inflation and the low pressure of domestic demand will permit the complete liquidation of the current account deficit in 1984 to be followed by a small surplus thereafter.

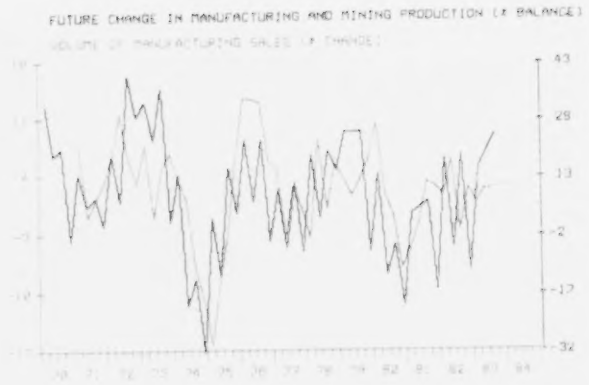
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	0.0	2.0	2.0	4.0	2.1	3.0
GNP/GDP	0.7	0.2	0.8	3.0	1.7	2.5
GROSS FIXED PRIVATE INVESTMENT	2.1	0.0	3.0	2.7	2.0	2.0
PRIVATE CONSUMPTION	0.0	− 1.0	2.0	1.5	1.7	2.0
BP CURRENT ACCOUNT (% GNP)	4.3	− 1.7	0.0	1.0	1.0	0.0
CONSUMER PRICES	8.7	7.6	6.5	6.0	5.5	5.5
PRODUCTIVITY	1.4	1.7	2.4	2.5	2.0	2.5
TOTAL WAGE BILL PER EMPLOYEE	7.2	4.5	5.5	5.0	6.0	5.5
UNEMPLOYMENT (% LAB. FORCE)	12.3	12.6	13.2	13.0	12.8	4.5
NUMBER OF CURRENCY UNITS PER US $	46.9	50.9	52.0	52.0	47.0	47.0

Denmark

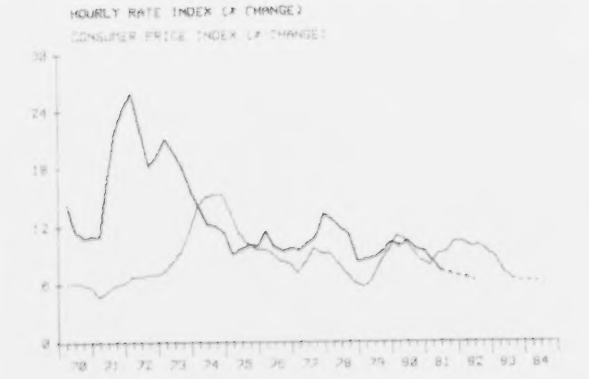
Improvements in external and public sector balances

The 1983 GDP growth forecasts for Denmark have been adjusted upward. According to projections, the central government deficit should decline in 1984 from the 1983 level of Kr.59 billion to Kr.57 billion. The financing of the deficit has been eased by a drop in interest rates brought about by a marked change in the expected rate of inflation and the foreign exchange policy. Public cutbacks included in the 1983 budget and an agreement reached concerning taxation of real interest earned by private pension funds have contributed Kr.22 billion to the budget corresponding to approximately 10 % of aggregate expenditures. If lower international interest rates and energy prices can be maintained, the balance of payments deficit is expected to decline to Kr.10 billion in 1983 and Kr.8 billion in 1984. A collective wage bargaining agreement reached in March 1983 which resulted in wage increases for the next two years being held within the government's ceiling of 4 % per annum, as well as a stable Krone exchange rate policy, have ensured the competitiveness of Danish industry for the next 2 years. Exports are expected to rise by 4 1/2 % in 1983 and 3 1/2 % in 1984 while imports will only rise moderately in both years. Government policy to bolster competitiveness can only in the long-term have a favorable effect on employment. However, if the export sector does not expand, neither will employment.



Weak domestic demand due to cuts in public expenditures

The new economic policy has had a major impact on economic development in 1983. Real income and private consumption are expected to show a slight increase due to the falling rate of inflation. An increase in social contributions, however, will keep private consumption in 1984 at nearly the same level as in 1983. Public consumption for the first time in many years decline in 1984. Gross investments stagnated in 1983. Whereas energy investments have peaked, other industrial investments are expected to grow by 10 % in 1984 (after more than 5 % in 1983). Following the drop in bond yields, housebuilding can be expected to grow as much as 10 %.



Lower inflation leads to lower interest rates

Consumer prices, excluding indirect taxes, rose by 6 percent from mid-1982 to mid-1983. In view of the government's anti-inflationary measures the rate of price increases is estimated to be 4 % by December 1983. An anticipated low inflation rate has already at the beginning of the year been discounted into the level of interest rates. Bond yields have lowered from over 20 % to 14 % in autumn 1983. As the collective wage agreement runs from April 1983, wages are expected to increase by 7 % on average in 1983, and 5 % in 1984. Because of the increasing size of the labor force and the inability to create new jobs the rate of unemployment is expected to rise to 10 1/2 % percent in 1983 and 11 % in 1984.

	1982	1983	Copenhagen Handelsbanken Sept. 1983	Federation of Danish industries Sept. 1983	Det Økonomiske Rad Secretariatet Sept. 1983	Den Danske Bank Nov. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year				
		Estimates	FORECAST FOR 1984			
GDP/GNP	469.8	2	1 2 3	2.5	1.0	1
TOTAL GROSS FIXED INVESTMENT	76.2	- 1/2	1 2	1.0	0.7	6
PUBLIC INVESTMENT	12.5	-10	- 7	- 5.0	- 7.0	- 5
PRIVATE INVESTMENT	47.3	- 1	1	8.0	0.7	5
HOUSING	16.4	7 1/2	7	13.0	5.5	15
PRIVATE CONSUMPTION	262.3	1	1 1 2	2.0	1.0	0
PUBLIC CONSUMPTION	131.6	1 1/2	1.0	1.0	2.2	- 1 1/2
EXPORTS (of goods and services)	166.2	4.0	3	3.0	3.0	3 1/2
IMPORTS (of goods and services)	166.4	1.0	1	2.0	1.0	1 1/2
CONSUMER PRICE INDEX	10.2	7	4 1/2 to 5	4.0	4.0	5
Balance of payments on current A/C - (billion) Dkr.	- 18.6	-10	10	-11.5	8.0	- 8
$						
CURRENCY UNIT PER US $	7.1	9.0	8.75	9.7	9.0	8.5

Medium-term outlook: zero growth but improved competitiveness

The medium-term strategy for public expenditures includes zero growth in total expenditures following the reduction in 1984. New principles for managing public expenditures will lead to higher productivity and better capacity utilization in the public sector. Public expenditures expressed in percentage of GNP should decline from 60 % to 50 % at the end of the 1980's. Also private consumption will have to grow at a moderate rate. This is considered a necessary condition for a further fall in interest rates and to avoid inflationary pressures from higher taxes. Gains in international market shares in recent years will be further increased. The improved competitive power of Danish industry and the slower growth of the total labor force will gradually reduce unemployment in the second half of the 1980's.

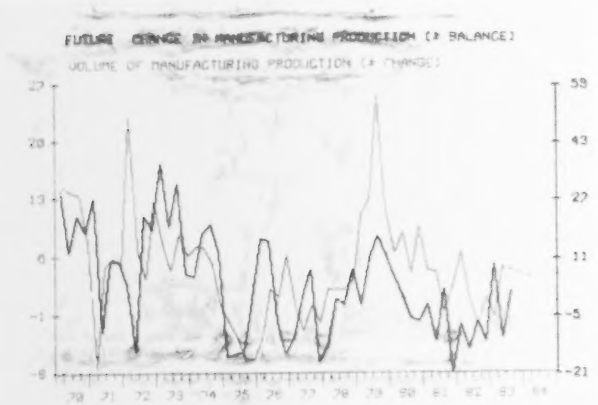
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

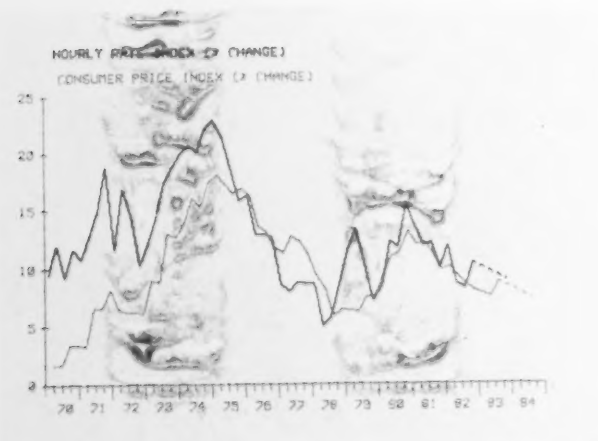
	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	2.5	2.9	3.0	3.0	3.0	3.0
GNP/GDP	3.1	2.0	2.5	2.6	2.8	2.6
GROSS FIXED PRIVATE INVESTMENT	5.6	- 1/2	5.0	5.0	4.5	4.5
PRIVATE CONSUMPTION	2.6	1.0	1.0	1.5	2.0	2.0
BP CURRENT ACCOUNT (% GNP)	4.0	- 2.1	1.7	- 1.5	1.5	0.0
CONSUMER PRICES	9.8	7.0	6.0	6.0	5.5	5.0
PRODUCTIVITY	2.2	2.0	2.0	2.0	2.5	2.0
TOTAL WAGE BILL PER EMPLOYEE	11.0	8.5	7.0	6.0	6.0	5.5
UNEMPLOYMENT (% LAB. FORCE)	9.8	10.7	9.8	9.5	8.8	8.8
NUMBER OF CURRENCY UNITS PER US $	7.1	9.0	9.0	9.0	9.0	9.0

Finland

Awaiting an upswing

With exports representing one third of Finland's GDP, a brighter outlook for Western markets is expected to boost economic growth in 1984. Forecast for GDP real growth range between 4 and 5 % for 1984 compared with a growth rate of 1.5 to 2 % in 1983. However the mood is one of cautious optimism and for good reasons : two thirds of Finnish exports go to Western industrialized countries while about one quarter goes to the Soviet Union, and consists mainly of industrial products in exchange for oil imports. The fall in oil prices has reduced the volume of trade with the Soviet Union. Roughly half of all exports to the West consists of various products of the timber industry, which could suffer from erratic production levels, because the forest owners' reluctance to sell raw materials hampered the overall growth of this vital industry earlier this year. However, after an agreement reached between the industry and the forest owners' organization in October the availability of raw material should no longer present a problem. One of the negative features is weakening price competitiveness. Finally, there is turmoil in the area of public finance between various levels of government. In spite of a constantly rising trend, Finland's state debt (14 % of GDP) has not yet reached alarming proportions. Before the Autumn 1983 budget negotiations it became obvious that there is in principle a wide consensus within the government, formed in March 1983 and led by the Center Party and the Social Democrats, on the necessity of restoring a budgetary balance between the national and local governments as soon as the long-awaited economic recovery becomes a reality. However, the implementation of this consensus presents an acute problem which has yet to be resolved through negotiation. Admittedly, the budget deficit will be reduced but the state debt continues to rise.





Inflation could undermine purpose of currency devaluations

Finland's ability to keep pace with the recovery of its Western export markets will depend on its competitiveness, which was strengthened by the capacity expansion program recently completed by the timber industry, the largest export sector. After two devaluations in Autumn 1982, price competitiveness has improved this year on average vis-à-vis Finland's key rivals except Sweden. However, the Spring 1983 wage agreements have neutralized the effect of the devaluation in the course of the year. Wages in the open sector will rise on average by 10 % in 1983, and in some closed sectors even more. Despite this, for some months already the underlying rate of inflation has been only 4-5 %. The growth of the Finnish economy in 1984, and maybe even more in 1985, will depend on its ability to contain domestic cost pressures - the more so as external inflationary impulses will probably remain mild in the short-term.

A slow recovery: fiscal and barter policy

From 1979 to 1980 Finland experienced an economic boom (GDP growth of 8 % in 1979 and 6 % in 1980). Current growth is less impressive because trade with the Soviet Union is decreasing. Since Finnish-Soviet trade is conducted as barter (i.e. the exchange of industrial products for oil), the vigorous growth in exports to the Soviet Union in the recent past reflected the need to bridge the trade gap caused by the second oil crisis. Today the situation is just the opposite : Finland must cut back its exports to the Soviet Union because oil imports have diminished. The sector with the best growth prospects at the moment is the timber industry, because the bulk of its exports go to expanding Western markets. The sectors hardest hit are foodstuffs, clothing and shoes. Due to the new government's savings program, fiscal policy, expansive throughout the late seventies, can no longer provide much stimulus.

	1982		Confeder. of Finnish Indust. Sept. 1983,	ETLA Research Inst. Sept. 1983	Labour Research Inst. Sept. 1983	Ministry of Finance Sept. 1983	Union Bank Sept. 1983
	Actuals (in local currency)		Figures in real terms, percentage change on previous year.				
			FORECAST FOR 1984				
GDP/GNP	237		4.0	4.0	4.0	3.1	3.5
TOTAL GROSS FIXED INVESTMENT	57		3.0	3.0	5.0	2.4	4.0
PUBLIC INVESTMENT	8		1.5	1.5	1.0	3.0	1.0
PRIVATE INVESTMENT	49		3.5	3.5	6.0	3.2	5.0
HOUSING	15		1.5	4.0	0.0	1.0	1.0
PRIVATE CONSUMPTION	131		2.5	2.5	2 1/2	1.6	2.0
PUBLIC CONSUMPTION	47		3.0	3.0	3.0	3.3	3.0
EXPORTS (of goods and services)	75		3.5	3.5	4.0	2.5	4.0
IMPORTS (of goods and services)	74		6.0	6.0	6.0	3.2	6.0
CONSUMER PRICE INDEX	9		7.0	7.0	9.0	8.0	7.5
BALANCE OF PAYMENTS ON CURRENT A/C - (billion)	FM. — 0.8	$	— 3.5	0.6	— 5.0	4.7	— 4.5
CURRENCY UNIT PER US $	3.7		—		5.7	—	—

Medium-term outlook : little change

The growing optimism noticeable in Western industrialized countries has not yet prompted corporate forecasters in Finland to adjust their medium-term forecast upward. This caution is due to the contraction of Finnish-Soviet trade, but simple time factors also have played a role : the background material for the forecasts was compiled before the outlook improved. If the GDP annual growth rate remains in the range of 2 % to 3 % as forecast, it will not suffice to reduce unemployment, which is considered excessive. During previous upswings the Finnish economy has managed to reach an annual growth rate of 5 % to 8 %. Inflation is expected to remain on a relatively high rate, and if it continues to accelerate, it could pose a serious problem for the maintenance of price competitiveness.

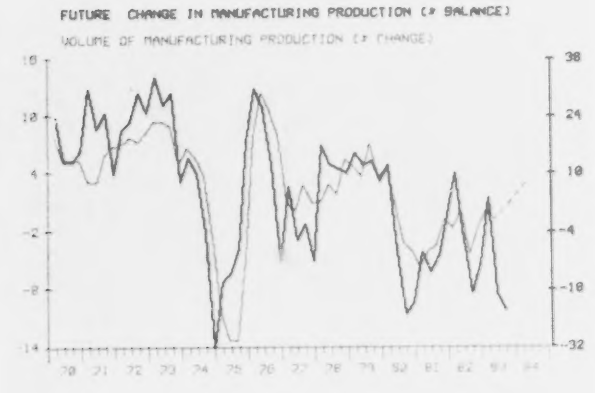
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

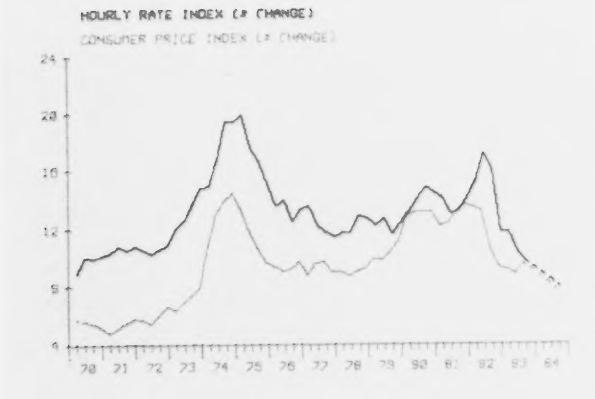
	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	1.0	2.5	3.0	4.0	3.5	3.5
GNP/GDP	3.0	1.8	2.2	2.8	2.8	2.7
GROSS FIXED PRIVATE INVESTMENT	3.0	1.5	2.5	3.5	2.5	3.0
PRIVATE CONSUMPTION	4.0	1.8	2.0	2.5	2.5	2.5
BP CURRENT ACCOUNT (% GNP)	2.0	— 0.4	0.0	0.0	0.0	0.0
CONSUMER PRICES	9.0	9.0	8.0	7.5	7.0	7.0
PRODUCTIVITY	1.8	3.0	2.6	2.8	2.8	2.5
TOTAL WAGE BILL PER EMPLOYEE	11.0	11.0	10.0	9.5	9.0	8.0
UNEMPLOYMENT (% LAB. FORCE)	6.2	7.0	7.5	7.3	7.0	7.0
NUMBER OF CURRENCY UNITS PER US $	3.7	4.5	5.0	5.2	5.3	5.4

France

Shift to domestic austerity to reduce external constraints

It became obvious after March 1983 that short-term priorities in government policy were no longer rapid growth and full employment but reduction of the trade deficit and an improvement in the balance of payments. This was to be achieved mainly by reducing domestic requirements of foreign goods and services and bringing down the inflation rate from 12 % in 1982 to 8 % in 1983. Additional fiscal and social security contributions reduced household real disposable income by about 1.5 % in 1983. The increase in the money supply was to be limited to 2 % less than nominal GNP growth. All these measures were put in place just after a third official devaluation of the French Franc within the European Monetary System (EMS). Hence, imports dropped by 5 % in the second quarter and continued to decrease during the second half of 1983. Consumer demand for manufactured goods fell by 4 % in the first half of 1983. Total investment fell by 3 % in the second quarter (compared with the first quarter 1983). But exports increased 2.6 % in the same period, bringing the trade deficit down from an average FF 8 billion monthly during the first quarter of 1983 to less than 3 billion by mid-year, to a near-equilibrium at year-end. Most of 1984 will be characterized by stagnation, and the recovery is expected to occur only by year-end, bringing the GNP average annual growth rate to about 1/2 %. With public expenditure rising only 7 % in nominal terms, the public sector deficit will only be slightly reduced, from about FF 130 billion in 1983 to about FF 120 billion in 1984. Investment in housing and in plant and machinery has been shrinking, while nationalization reduced the traditional role of stock markets in corporate financing. As a result, public sector borrowing requirements had little effect on financial markets and little conflict is expected to arise in 1984 between public and private financing needs despite a tight money supply.





Mild recession

With industrial production stagnant and final demand on a downward trend, inventories rose in the first half of 1983, leading to destocking and further drops in domestic demand and industrial output. Therefore, industrial production may well be 3 % lower at the beginning of 1984 than a year ago. There is little hope for a recovery before the end of 1984. Private consumption will remain weak. Domestic demand for durable goods will continue to suffer. In this sector, producers will have to rely more on export orders, assuming that the recovery in other European countries will exert positive effects and that France's exchange rate advantage will be maintained. The investment goods sector will remain weak due to declining orders from developing countries and sluggish corporate investment. Although official forecasts project a slight increase in private investment, most other evaluations anticipate a reduction of 1 to 4 %. However, exports are expected to show some growth and imports to decline. This will reduce the trade deficit from about FF 60 billion in 1983 to less than FF 30 billion in 1984.

Inflation declining in 1984

Government policy exerted contrasting effects on inflation in 1983. On the one hand, « official » increases in energy prices, public tariffs and indirect taxation were translated into part of the near 9 % increase in the consumer price index. On the other hand, these rises helped to reduce the public sector deficit. So-called imported inflation was also carried over from the strength of the U.S. dollar, the currency most frequently used to price French imports of raw materials. The average inflation differential between France and its European trading partners, about 3 % in 1983, has been detrimental to the French currency. Therefore, an overall permanent

	1982		CCIP	L'Expansion	BIPE	IPECODE	OFCE
			Sept. 1983	Jan. 1984	Nov. 1983	Nov. 1983	Nov. 1983
	Actuals (bn local currency)		Figures in real terms, percentage change on previous year				
			FORECAST FOR 1984				
GDP/GNP	3549.7		0.2	0.3	0.3	1.2	0.7
TOTAL GROSS FIXED INVESTMENT	728.1		− 1.7	2.7	− 2.4	—	− 1.4
PUBLIC INVESTMENT	103.8		—	3.0	− 2.0	0.7	− 1.0
PRIVATE INVESTMENT (1)	441.5		0.0	2.0	− 0.9	2.2	0.2
HOUSING	182.8 (2)		− 6.0	4.5 (2)	− 5.6	2.4	− 5.1
PRIVATE CONSUMPTION	2303.3		0.0	0.0	0.3	0.6	0.7
PUBLIC CONSUMPTION	583.4		− 1.0	0.5	− 0.7	0.5	− 2.0
EXPORTS (of goods and services)	772.6		3.0	4.5	3.3	5.5	4.1
IMPORTS (of goods and services)	868.3		− 1.0	0.0	0	2.1	0.0
CONSUMER PRICE INDEX	11.8		7.5	7.7	7.6	7.0	7.7
BALANCE OF PAYMENTS ON CURRENT A/C - (billion)	FF	− 79.3	− 30	2	− 20	—	— (3)
	$						
CURRENCY UNIT PER US $		6.82 (3)	7.70	8	7.79	8.07	7.75

(1) Including national enterprises (2) Gross capital formation of households (3)

depreciation of the French Franc vis-a-vis strong European currencies such as the DM is generally expected in 1984. This could lead to another E.M.S. readjustment if the anti-inflation policy does not result in success in the coming months. However, the official target of bringing inflation down to 5 %, although ambitious, does not seem so unattainable. increases in hourly wage rates, contained within a 10 % limit in 1983 are being negotiated within an official ceiling of 5 % to 6 % in 1984. The real problem remains that, despite moderate wage increases, unit costs will continue to rise rapidly since activity will remain weak in 1984.

Medium-term outlook : recovery delayed by government policy

In light of the shift by the government towards more restrictive policies, corporate forecasts may appear overly optimistic regarding GNP and output growth and overly pessimistic regarding inflation and external payments. The last two years' experience is that of repeated downward revisions in short-term forecasts in order to make them match actual developments and policies. Those policies, de facto, give more priority to external equilibrium and price stability than to the pre-election themes of rapid growth and full employment. Hence, in order to reabsorb the external payment deficit and to reverse the trend towards rising foreign debt, policies restricting domestic demand will have to be carried out throughout 1985.

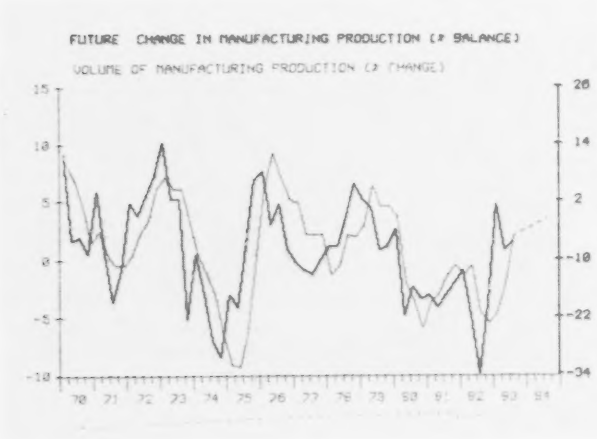
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	1.7	− 2.0	3.0	3.5	2.4	1.0
GNP/GDP	1.9	0.1	1.5	2.1	2.0	1.9
GROSS FIXED PRIVATE INVESTMENT	1.1	− 3.8	1.5	3.5	2.5	2.6
PRIVATE CONSUMPTION	2.7	0.0	1.5	2.0	1.7	1.7
BP CURRENT ACCOUNT (% GNP)	2.2	− 0.8	1.0	0.0	0.0	0.0
CONSUMER PRICES	11.8	9.2	8.0	8.0	7.0	7.0
PRODUCTIVITY	2.1	1.8	2.0	2.0	2.0	1.8
TOTAL WAGE BILL PER EMPLOYEE	13.0	10.5	9.0	9.0	8.7	8.5
UNEMPLOYMENT (% LAB. FORCE)	8.7	9.0	9.3	9.0	8.8	8.8
NUMBER OF CURRENCY UNITS PER US $	6.82	7.64	8.0	7.8	7.8	8.0

Germany

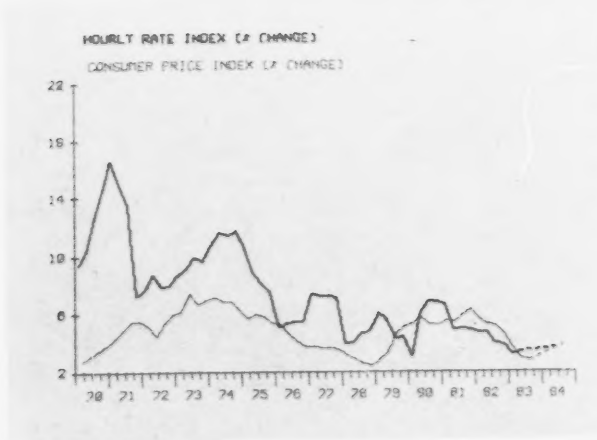
Recovery in 1983, but expansion in 1984 not assured

A relatively strong recovery occurred in the first half of 1983 since private consumption was rising fast due to lower inflation and lower interest rates. In addition, momentary factors also exerted a positive influence (e.g. the reduction in the savings ratio which followed the distribution of savings bonus of about DM 17 billion in January and July 1983). After revision of statistical figures in September, it turned out that, in contrast with most expectations, investment in plant and machinery expanded strongly in the first quarter and accelerated in the second quarter, at a time when private consumption was faltering. The consensus is that the recovery slowed down somewhat after June 1983 because the growth of private consumption was smaller than in previous years since the savings ratio did not continue to drop and real income increased only slightly. Uncertainty remains about export development. The boost in exports resulting from rapid growth in the United States and Japan has so far been more than neutralized by the decreasing demand emanating from European, oil producing and developing countries, but the latest data concerning orders from abroad points towards an overall improvement. High and rising interest rates could suppress investment. A 1 % GNP growth is anticipated in 1983. Although there is no certainty about an acceleration of the recovery in 1984, year to year growth could still amount to 2.5 %. After some relaxation in the first half of 1983, monetary policy is again aimed at carefully controlling money growth. Budget policy in 1984 is aimed at reducing the public sector deficit (4 1/4 % of GNP in 1983). The main question remains whether in the short run this will have a positive impact on interest rates and help to improve investment. Despite increased value-added taxes, inflation will remain less than 3 % in 1984. An increased surplus of the current account is expected in 1983 (in 1982 the surplus was DM 8.6 billion). In 1984 a surplus of approximately the same magnitude (DM 10 billion) is generally predicted.



Without export growth, industrial output will increase slightly

Industrial production increased by 6 % in the first half of 1983. The most substantial growth occurred in industries producing basic goods (i.e. + 8.5 %), a result mainly of inventory rebuilding. The consumer goods sector also showed an increase, especially in the auto industry. Traditional investment goods industries expanded less rapidly. This partly resulted from the weakness of export demand. The rise in industrial output is expected to continue, but will slow down in the second half of 1983. The business climate is improving and it is generally assumed that domestic demand will continue to increase moderately. However, accelerated growth remains unlikely, if not stimulated by further improvements in export demand. In the construction sector, the government's measures have induced an increase in demand. Hence, order books are now guaranteeing further growth in production.



Inflation remains moderate while unemployment continues to rise

The downward trend in inflation - starting from the end of 1981 - continued throughout the first half of 1983. The consumer price index dropped to about 2 1/2 % by mid-1983. Following increases in the value-added tax and the strength of the U.S. dollar, inflation rose again to 3 % in August. However, a return to lower rates is anticipated due to the narrow margin left to price increases by international competition and the strength of the DM vis-à-vis competing currencies. The overall improvement of the economic situation remains too weak to permit the unemployment rate to be reduced from the average 9.5 % in 1983 since the labor force continues to expand.

	1982	Commerz-bank Sept. 1983	IFO München Sept. 1983	RIW Sept. 1983	IfW Oct. 1983	West LB Oct. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year				
		FORECAST FOR 1984				
GDP/GNP	1597.7	2 to 2.5	1.5	1.5	2.0	2.3
TOTAL GROSS FIXED INVESTMENT	327.9	4.0	4.0	3.5	—	5.5
FIXED INVESTMENT IN MACHINERY AND EQUIPMENT	125.2	3.0(1)	3.0(1)	4.0(1)	3.0	5.0
TOTAL CONSTRUCTION	202.7	5.5(2)	6.5(2)	6.0(2)	3.5	5.5
PRIVATE CONSUMPTION	899.4	1.0	0.5	0.5	1.5	1.5
PUBLIC CONSUMPTION	325.3	– 0.5	0.0	0.5	0.5	0.5
EXPORTS (of goods and services)	535.6	3.5	3.5	4.0	4.0	4.0
IMPORTS (of goods and services)	497.6	3.0	3.5	3.5	3.5	4.5
CONSUMER PRICE INDEX	5.3	3.0	2.5	3.0	2.75	3.0
BALANCE OF PAYMENTS ON CURRENT A/C - (billion) DM	8.6	10	—	—	—	10.0
$	3.5					
CURRENCY UNIT PER US $	2.43	2.40	2.44(3)	2.5	2.50	2.43

(1) Private investment (2) Housing (3) 4th Quarter 1984

Medium-term outlook: a return to moderate growth

As in the past, corporate economists anticipate a sustained expansion throughout 1984. Their expectations for the years ahead correspond to the upper range of other published medium-term forecasts. Private investment and industrial output are expected to increase at a faster pace than during the period 1975-80. An improvement in investment conditions and a strengthening of the industrial sector are obviously assumed in most corporate forecast figures. Price increases are expected to remain moderate through 1987. Unemployment will be slightly reduced. This is in sharp contrast to other projections which generally consider that both productivity gains and an increase in the labor force will not permit the employment rate to improve. Hence, unemployment seems to be the major source of uncertainty for the coming years.

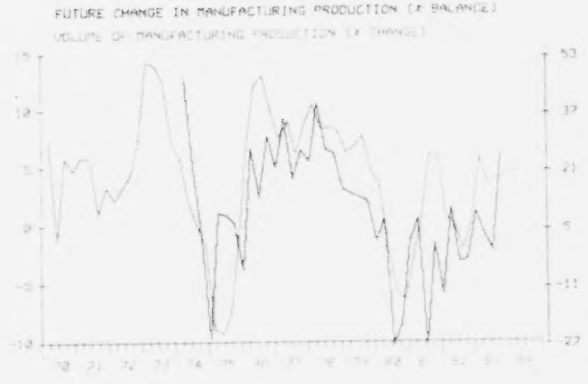
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	2.5	1.0	4.0	3.5	3.0	3.3
GNP/GDP	1.1	1.0	2.7	2.5	2.2	2.5
GROSS FIXED PRIVATE INVESTMENT	5.6	– 3.0	4.4	3.5	3.0	4.0
PRIVATE CONSUMPTION	2.3	1.0	2.0	2.5	2.1	2.5
BP CURRENT ACCOUNT (% GNP)	0.5	0.7	1.0	1.0	1.5	1.0
CONSUMER PRICES	5.3	3.0	4.0	3.5	3.5	3.5
PRODUCTIVITY	1.5	2.5	3.4	2.0	2.5	2.0
TOTAL WAGE BILL PER EMPLOYEE	5.0	3.8	4.0	4.0	4.5	4.5
UNEMPLOYMENT (% LAB. FORCE)	7.5	9.5	9.0	8.5	8.5	8.0
NUMBER OF CURRENCY UNITS PER US $	2.43	2.54	2.40	2.30	2.20	2.10

Ireland

Public sector deficit is a major constraint

There is a consensus among economists that in Ireland GDP will increase slightly more in 1984 (1.8 to 2 %) than in 1983 (1 %); that neither private consumption (almost stagnant) nor investment (— 1 to zero change) will be driving forces in 1984; and that the main contribution to growth is expected to emanate from exports (+ 6 to + 8 %). This means that the main foci for economic development in Ireland in 1984 are the growth of international markets and the evolution of Ireland's international competitiveness. Projected borrowing requirements of the government sector were Ir.£1.75 bn for 1983. Budget data available for the first nine months of 1983 indicate a requirement of Ir.£1.39 bn, which by simple trend projection means Ir.£1.83 bn for the year 1983, or 13 % of GDP, compared with 15.6 % in 1982. Undoubtedly, the public sector deficit, although reduced, remains high. Therefore, in 1984, the government will have to make further cuts in public spending in order to alleviate the pressure of its borrowing on financial markets. In 1983, government financing was the major source of money creation. However, the increase of money supply remained rather low. This resulted not only from a reduction of government borrowing requirements but also from a slowing down in private sector lending which could be explained by both pessimistic anticipations regarding investment (and thus a lower propensity to invest) and higher interest rates. These developments in 1983 indicate that in 1984 there will be a continuing tight money supply with relatively high nominal interest rates, and hence a further reduction in inflation.



Falling domestic demand and rising exports

Consumer demand was weak in 1983, with private consumption dropping by about 3.5 % compared with 1982. Hence, in the first half of 1983, the volume of retail sales was 5 % lower than in the same period of 1982. However, some recovery seems to have occured since then. Investment fell more sharply, by 10 % in plant and machinery and almost 2 % in construction. This is explained by decreasing house completions (25,000 in 1983, i.e. — 6 % compared with 1982), although in the first half of 1983 new dwelling permits increased more than 10 %. Increased exports (+ 8.9 % in 1983) compensated for low domestic demand. In real terms, industrial exports increased by 10 % in 1983, and agricultural exports by 5 % which resulted primarily from beef.

Inflation is reduced but remains relatively high

In the manufacturing sector hourly wage rates increased by almost 13 % in 1983. However, due to reduced working hours, average weekly earnings increased by only 12 %. These rises, although substantial, are much lower than in previous years. As a result, inflation was reduced from 17 % in 1982 to about 10.6 % in 1983. Forecasters generally agree that both wages and consumer price increases will be further reduced in 1984, possibly to less than 10 %. This would improve competitiveness and reduce external deficits. However, this would also mean diminishing real disposable income and, therefore, low domestic demand. Hence the unemployment rate may continue to increase, from an average 11 % in 1983 to 12 % at the end of 1984.

	1982	1983	Goodbody & Wilkinson Sept. 1983	E.C. Oct. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year		
		Estimates	FORECASTS FOR 1984	
GDP/GNP	12.44/11.8	1/0	2.2 2.3	1.8
TOTAL GROSS FIXED INVESTMENT	3.18(1)	−11	0	− 1.2
PUBLIC INVESTMENT				
PLANT AND MACHINERY	1.45	−10	—	—
CONSTRUCTION	1.72	−11.5	—	—
PRIVATE CONSUMPTION	7.49	− 3.5	0.5	− 0.8
PUBLIC EXPENDITURE	2.68	0.5	1.0	− 1.0
EXPORTS (of goods and services)	6.37	8.8	6.0	8.3
IMPORTS (of goods and services)	7.28	− 1	3.0	3.7
CONSUMER PRICE INDEX	17.1	10.6	9.5	8.8
Balance of payments on current A/C (billion) Ir. £ $	− 1.04	0.3	0.45	− 0.6
CURRENCY UNIT PER US $	0.71(2)	0.81(2)	—	

(1) Of which, capital expenditure of by central government 1.3 (2) Ave. for June/Dec.

Medium-term outlook : low growth, improved competitiveness

Regarding 1984 and 1985, a majority of corporate economists have significantly revised downwards their projections. In these two years, and also through 1987, according to the survey of corporate forecasts, the increase in private consumption should be relatively lower than the average of the past decade (i.e. 3.2 % per year) and output will be primarily sustained by investments and exports. The basic assumption underlying these prospects in that inflation will continue to be reduced and that government policy will aim primarly at strengthening productivity and competitiveness by means of budgetary cutbacks and a selective deflationary policy.

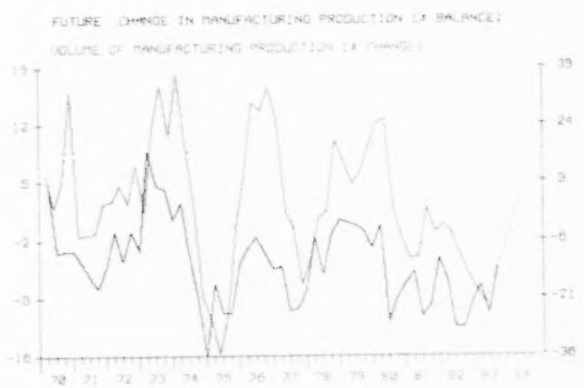
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	2.6	1.0	5.0	n.a.	n.a.	n.a.
GNP/GDP	0.3	1.0	2.0	2.0	1.0	2.0
GROSS FIXED PRIVATE INVESTMENT	5.3	− 11.0	2.4	4.5	2.0	1.5
PRIVATE CONSUMPTION	0.3	− 3.5	1.0	1.0	0.5	2.0
BP CURRENT ACCOUNT (% GNP)	1.5	− 2.4	1.0	− 1.0	0.0	0.0
CONSUMER PRICES	17.1	10.6	10.0	9.0	8.0	8.0
PRODUCTIVITY	2.5	2.5	2.0	2.5	2.0	2.0
TOTAL WAGE BILL PER EMPLOYEE	17.0	13.0	12.0	10.0	9.0	9.0
UNEMPLOYMENT (% LAB. FORCE)	10.5	11.0	11.6	12.0	12.8	12.0
NUMBER OF CURRENCY UNITS PER US $	0.71	0.81	0.83	0.85	0.80	0.80

Italy

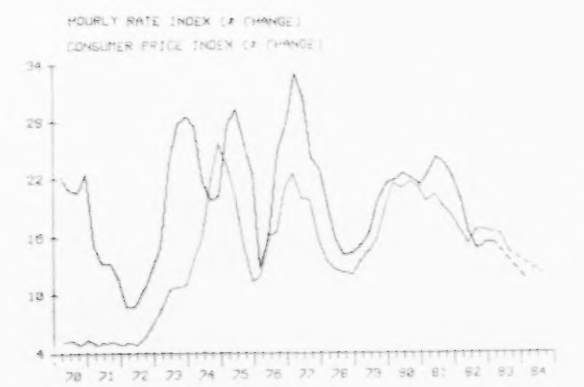
A temporary relaxation of government austerity in 1983

In 1982, Italy's economy was one of the exceptions in the overall internatinal recession. In 1983, it experienced the recession while an improvement was more or less apparent in most other Western industrialized countries. According to a majority of forecasters, the Italian economy will recover in 1984. GNP growth is expected to be between 2 and 3 %. The main contributor to growth will be a recovery of investment and an acceleration in the increase of exports. Private consumption will only grow 1 to 2 %. After mid-year 1983, the new government policy seemed to deviate somewhat from prior austerity principales. The increase in public utility rates were cancelled; family allowances were increased; and wage settlements signed in September provided readjustments to compensate for the effects of the deindexation achieved in January 1983. Although these measures did not prevent consumer confidence from deteriorating in October 1983, they may lend less credibility to the government's primary target of reducing inflation. However, it is likely that the Italian cabinet will once again focus on austerity in 1984. Hence, the government will be seeking not only a reduction of public spending (although at present the government budget is planned with a Lira 90 bn deficit in 1984), but also a slowdown of cost-push inflation.



Low activity, uncertainly for the near future

GNP fell about 1 % in 1983, with investment down 6 % and private consumption decreasing only 0.5 %. During 1983, it is estimated that industrial production was reduced by 4 %. However, at mid-year the business cycle showed no more deterioration and leading indicators pointed towards a slow recovery. Consumer confidence also improved throughout the first three quarters. And despite some deterioration in October, the index of consumer confidence published by ISCO, the Italian institute specializing in analysing the business climate, remained at a higher level than a year ago. Favorable developments in 1983 included the sharp reduction of the trade deficit due to rising exports and stagnating imports, repatriation of capital in Italy and increased expenditures by foreign tourists. This resulted in a shrinking external payments deficit from 7.4 % of GNP in 1982 to less than 2 % in 1983.



Although decreasing, inflation remains a concern

Declining industrial activity meant increased unemployment. The unemployment rate rose from 8.4 % in 1981 to 9.2 % in 1982, to 10.5 % in 1983. Underemployment rose even faster, to about 700 million hours not worked in 1983, which is the equivalent of 300,000 full-time unemployed persons. If on takes this into consideration, the adjusted unemployment rate is about 12 %. Despite some reduction, inflation remained high in 1983; 13 % compared with 16 % in 1982. The Italian government, headed by Bettino Craxi, a Socialist, has adopted as its top priority the reduction of inflation. An agreement was reached with organizations representing department stores to freeze their retail prices from September 1983 to January 1984, but this concerned only a small segment of retail sales. However, the government is anxious about controlling price developments in order to reach a consensus about wage controls which are to be the centerpiece of the anti-inflation policy.

	1982	Chase Econometrics Sept. 1983	Confindustria Sept. 1983	ISCO Sept. 1983
	Actuals (tr. local currency)	Figures in real terms, percentage change on previous year		
		FORECASTS FOR 1984		
GDP/GNP	469.8	2.9	1.8	2.0
TOTAL GROSS FIXED INVESTMENT	89.3	4.2	1.1	0.9
PUBLIC INVESTMENT	—			
PLANT AND MACHINERY	36.2			
CONSTRUCTION	53.1		3.2	
PRIVATE CONSUMPTION	298.2	1.2	1.9	2.0
PUBLIC CONSUMPTION	88.9	1.8		1.0
EXPORTS (of goods and services)	113.9	4.4	4.1	3.0
IMPORTS (of goods and services)	127.0	4.3	5.1	5.0
CONSUMER PRICE INDEX	16.0	12.9	12.0	12.5
Balance of payments on current A/C (billion) Lira tr. $	7.4	- 1.8	4.0	- 4.5
CURRENCY UNIT PER US $				1620

(1) Housing

Medium-term outlook: more optimism

Regarding 1984 developments, corporate economists, being more optimistic than forecasting institutions, anticipate that the recovery will permit a continued improvement of the Italian balance of payments whose deficit is experted to shrink. In contrast, forecasting institutions believe that this deficit will start rising again as the recovery picks up. Corporate economists think that private investment will recover rapidly in 1984, while private consumption will increase no more than 1 %. For the period 1985 through 1987, corporate forecasts indicate a continuation of growth, at an average yearly rate of 1.9 % for GNP, 2.5 % for private investment, and 1.8 % for private consumption. These rates imply good export performance throughout the period, and a substantial weakening of the average growth of private consumption in comparison with previous long-term performances. Inflation is not anticipated to be reduced to less than 11.5-12 % in the medium-term. Hence, the Lira will remain weak vis-à-vis the U.S. dollar.

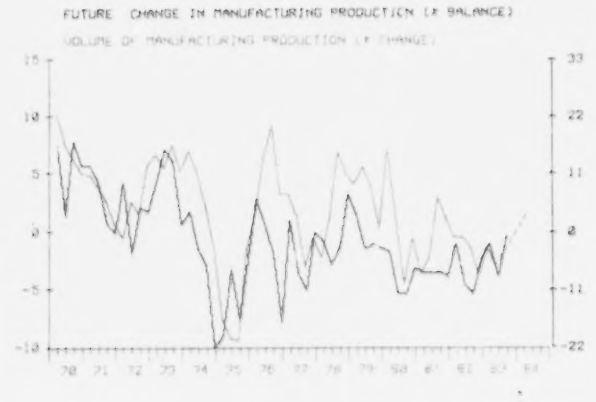
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	3.0	2.5	4.0	3.7	3.0	2.0
GNP/GDP	0.3	- 1.0	2.0	2.1	2.0	1.5
GROSS FIXED PRIVATE INVESTMENT	5.3	- 6.0	4.3	3.5	2.0	2.0
PRIVATE CONSUMPTION	1.0	- 0.5	1.0	2.0	2.0	1.5
BP CURRENT ACCOUNT (% GNP)	1.6	- 0.4	0.0	0.0	0.6	0.0
CONSUMER PRICES	16.0	13.0	12.0	12.0	12.0	11.5
PRODUCTIVITY	1.2	1.2	2.0	2.0	2.0	1.0
TOTAL WAGE BILL PER EMPLOYEE	17.6	17.0	13.0	12.0	13.0	12.0
UNEMPLOYMENT (% LAB. FORCE)	9.1	10.5	11.5	12.0	12.0	11.0
NUMBER OF CURRENCY UNITS PER US $	1353	1508	1500	1550	1605	1605

Netherlands

Structural improvement

Important developments in the Netherlands during the five year period ending in December 1983 have been no growth in real disposable income (excluding inflation) and a 2.5 % drop in the volume of private consumption. A structural characteristic of the Dutch economy is that exports represent more than 50 % of GNP and imports more than 50 % of domestic demand. Hence, by reducing domestic consumption and slowing down cost inflation, the country is not only improving its international competitiveness, but also restoring the basic conditions necessary for economic expansion. However, the price of this renewal is high structural unemployment (since new sectors are less labor intensive) coupled with increased sensitivity to changes in world trade. The government aims to control its deficit while reducing its share of the economy. However, due to the interest on the public sector debt (11 % of national income) the government deficit will not shrink substantially in 1984, while government spending (other than in relation to the public debt) will be decreased by means of payroll cuts, diminishing social security benefits, and reduced government investment and consumption. In addition, zero growth in average earnings in the private sector caused by wage settlements and the reduction of corporate social security contributions will improve corporate cash flows, despite increased unit costs resulting from a shorter work week. A low inflation rate along with a current account surplus will result in a strengthening of the currency in 1984. Possibly some reduction of short-term and long-term interest rates will occur in 1984 if similar trends continue in Germany.



1984 : a continued recovery

Due to an increase in world demand for semi-finished goods and oil products which account for a substantial proportion of Dutch exports, the annual growth of industrial production was about 0.5 % in mid-1983. However both manufacturing output and capacity utilization remained weak throughout 1983. Natural gas exports showed no growth. Agricultural production declined. Assuming that the worldwide economic recovery continues, Dutch exports will continue to rise by 3 % to 4.5 % in 1984, an effect of the improved competitiveness of the country which is now gaining market shares. With an anticipated zero growth in nominal wages, private consumption is expected to drop by 0.5 % to 2 % in 1984. Government consumption and investment will not contribute to growth. Housing will remain depressed but there may be a recovery in the non-residential building sector. Hence, 1984 GNP growth can only be generated by increased exports and private investment in plant and machinery (i.e. from + 3 % to + 5 %).

Low inflation, high unemployment

The improvement in industrial activity was insufficient to prevent a further rise in unemployment, from 655,000 in 1982 to an average 800,000 in 1983, (i.e. 16 % of the active labor force). Due to the wage concession made by labor unions, hourly wage rates rose by only 3.5 % in 1983. Due to gains in productivity, moderate wage increases meant no change in the average unit labour cost and reduced inflation from 5.5 % in 1982 to around 2.5 % in 1983. In 1984, despite better economic conditions, the unemployment rate will continue to rise to almost 20 % at year end. This will mainly result from the additionnal young people seeking for employment. Wage earnings are expected to show no growth and inflation to increase slightly to about 3 %. However, the reduction in employee social security contributions will prevent real disposable income from declining in 1984.

	1982	Algemene Bank Nederland Sept. 1983	Amrobank Sept. 1983	Centraal Plan Bureau Sept. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year		
		FORECASTS FOR 1984		
GDP/GNP	365.2	1	0.5	1
TOTAL GROSS FIXED INVESTMENT	65.0	2	3.5	0.5
PUBLIC INVESTMENT	11.0	− 2	2.5	− 4
PRIVATE INVESTMENT	36.8	5	5	3(1)
HOUSING	18.5	− 2	2.5	− 2
PRIVATE CONSUMPTION	221.4	− 1	0.5	− 2
PUBLIC CONSUMPTION	65.5	0.5	0	− 3.5
EXPORTS (of goods and services)	211.6	4	3	4.5
IMPORTS (of goods and services)	197.6	3	3.5	1.5
CONSUMER PRICE INDEX		2.75	3.5	3
Balance of payments on current A/C (billion) D. Guil. $	10.0	12	10	17.5
CURRENCY UNIT PER US $	2.7	2.60	2.65	2.85

(1) Including change in inventories (2) Excluding housing

Medium-term outlook : improved competitiveness through investment

For the period 1984 to 1987 corporate economists have made no significant revisions of their estimates. Industrial production is expected to increase 2 % per year on average, and GNP slightly less. The main contributors to growth will be private investment (i.e. + 2.5 % per year) and exports. Private consumption will show some growth only in 1985, the average annual increase during the period 1984 to 1987 being only 1 %. With such little growth in private consumption, inflation is expected to remain low and wage increases to average 4.5 % per year. With investment growing, continuous improvements in productivity, a strengthening of Dutch competitiveness, and a current account surplus are expected during the next 4 years. Two underlying assumptions make these forecasts possible. They are : a continuously favorable international economic environment and the curbing of unemployment by 1985 (despite weak domestic demand).

SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

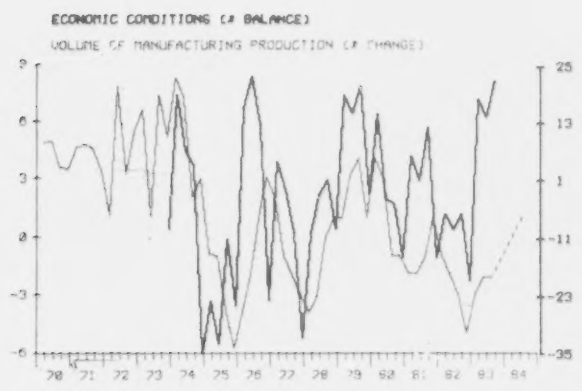
	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	− 2.7	0.5	2.5	1.8	2.2	1.5
GNP/GDP	1.5	0.0	2.0	1.3	2.0	1.7
GROSS FIXED PRIVATE INVESTMENT	2.7	1.0	3.0	2.5	2.0	2.5
PRIVATE CONSUMPTION	1.5	− 1.0	0.0	1.0	2.0	1.5
BP CURRENT ACCOUNT (% GNP)	2.7	2.7	3.0	2.0	1.5	2.0
CONSUMER PRICES	5.5	2.6	3.0	3.5	3.5	3.0
PRODUCTIVITY	1.0	3.0	2.5	2.5	2.0	2.5
TOTAL WAGE BILL PER EMPLOYEE	6.5	4.0	5.0	4.5	5.0	4.5
UNEMPLOYMENT (% LAB. FORCE)	12.4(1)	16.0(2)	17.0(2)	17.5(2)	16.0(2)	15.0(2)
NUMBER OF CURRENCY UNITS PER US $	2.7	2.8	2.7	2.6	2.5	2.5

(1) Old definition (2) New definition

Norway

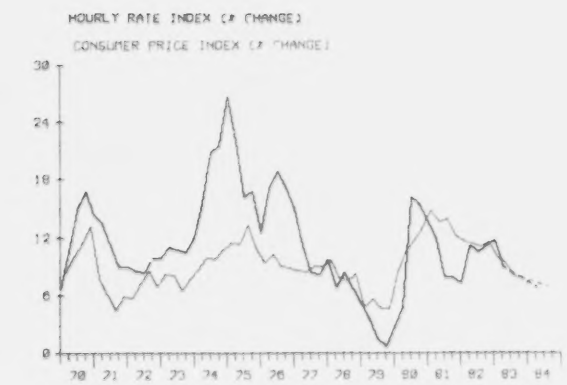
Little growth in 1984

The 1982 currency devaluation, the slow-down in public spending and little growth in private consumption have all contributed to a reduction in the volume of imports in 1983, while exports continued to increase. Following these events the trend towards a shrinking trade surplus was reversed. And a current account surplus is expected in 1983. The national budget anticipates no GNP growth in 1984 (+ 1.4 % GNP growth excluding oil, gas and shipping). This is in harmony with the official target of improving the country's international competitiveness by means of reducing the growth of domestic demand and dampening cost-push inflation. Hence, the assumption for 1984 is that real disposable income will show no increase. However, both fiscal and monetary policies remain expansionary in 1984. The targeted money supply growth rate is slightly over 10 % which, according to the monetarist viewpoint, means accelerating inflation in 1984. However, the government budget is now planned with a Nkr. 3.5 billion surplus. The main problem of public finances is social transfers (mainly social security contributions). These transfers account for more than 70 % of public expenditures. As long as oil revenues continue to contribute substantially to government income and grow with public spending, the increase in social transfers does not constitute a threat. But without oil taxes, the Norwegian public sector would show a deficit of over 7 % of GNP in 1984. It is obvious that in the medium and long range, oil and gas exports will not continue rising at the same rate as in past years and that, sooner or later there will have to be an adjustment of the social transfers policy.



A weakening of domestic demand

In 1983, mining, petroleum, energy supply and those sectors concerned with world markets showed trends contrasting with other industries. For the period January to July 1983, mining, petroleum, and energy supply production increased 10 % when compared with the same period in 1982. In contrast, output in manufacturing industries was reduced by 3 %. Construction remained depressed in the first half of 1983 with housing starts down 7 % when compared with the same period in 1982. On average, shipping activity remained weak. At the end of August 1983, 26 % of the Norwegian merchant tonnage was laid up, as compared with 25 % in the previous year. In the second half of 1983, leading indicators such as money supply, new domestic and new export orders pointed toward a slow recovery.



Lower inflation, improved competitiveness

The unemployment rate rose from 2.1 % in 1982 to 3.5 % in 1983. This rate remains low in comparison to most other countries. However, its increase points to the overall weakness of activity in traditional industries (shipbuilding, timber, etc.). Inflation dropped from 11 % in 1982 to 8.5 % in 1983. A further rise in unemployment to an average 4.5 %, and a continued reduction of inflation to between 6 % and 7 % is expected in 1984. In contrast to previous practices, the 1984 national budget forecasts a 6 % inflation rate. The main aim of the government's economic policy is to prevent further deterioration of the country's international competitiveness, by keeping wage increase low (i.e. 5 %). However, wage settlements carried over from 1983 to 1984 are already about 3 % which will make it difficult, if not impossible, to keep below the ceiling of 5 %, and corporate economists in general foresee a 6 % to 7 % increase in average wages in 1984.

	1982	1983	Christiania Bank og Kreditkasse Sept. 1983	Ministry of Finance Sept. 1983	Den Norske Creditbank Sept. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year			
			FORECASTS FOR 1984		
GDP/GNP (excluding oil and shipping)	362.6	[illegible]	2.1	1.9-1.4	1 1/2
TOTAL GROSS FIXED INVESTMENT	89.2	[illegible]	8.0	9.6	11
PUBLIC INVESTMENT	11.4	[illegible]	0.0	1.7	1
PLANT AND MACHINERY	61.8	[illegible]	12.5	11.7	15
HOUSING	16.1	[illegible]	0.0	0.0	– 1
PRIVATE CONSUMPTION	176.2	[illegible]	1.5	1.7	1 1/2
PUBLIC CONSUMPTION	70.3	[illegible]	2.5	0.9	2
EXPORTS (of goods and services)	165.6	[illegible]	2.7	3.1	2
IMPORTS (of goods and services)	145.2	[illegible]	2.5	2.6	5
CONSUMER PRICE INDEX	11.3	[illegible]	6.5	6.0	6 1/2
Balance of payments on current A/C Nkr. (billion)	5.1	[illegible]	5.0	0.6	7
$ CURRENCY UNIT PER US $	6.25(1)	[illegible]	6.75	7.33	—

(1) As of June 30

Medium-term outlook: investment is the driving force

Corporate economists continue to remain optimistic about investment. Regarding 1984, they, like many institutes and banks, expect private investment to increase about 9 %. Excluding housing which remains depressed, a 13 % to 15 % increase in investment in plant and machinery, mainly in oil production and transportation, is expected. During the period 1985 to 1987, private investment will continue to rise by a yearly average of 2.3 %. Corporate forecasts of private consumption have not been substantially revised. GNP is expected to show an average growth of 1.9 % per year through 1987. The revised inflation figures are more important: 7.3 % per year on average during the next 4 years, as compared with previous forecasts of 8.7 % per year. The Norwegian Krone is not expected to depreciate vis-à-vis the U.S. dollar.

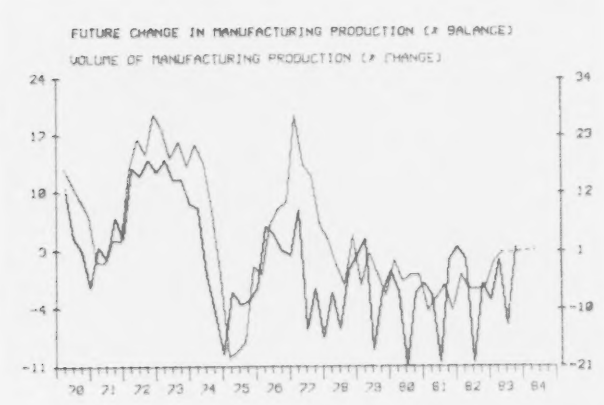
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	0.8	0.0	1.3	1.5	1.8	1.8
GNP/GDP	0.6	1.5	1.8	2.0	2.0	2.0
GROSS FIXED PRIVATE INVESTMENT	10.5	8.0	9.0	2.5	2.5	2.0
PRIVATE CONSUMPTION	1.3	1.5	1.5	2.0	2.0	2.0
BP CURRENT ACCOUNT (% GNP)	1.4	1.0	1.0	0.0	1.0	1.0
CONSUMER PRICES	11.2	8.5	6.8	8.0	7.5	7.0
PRODUCTIVITY	0.0	1.5	2.0	1.5	2.0	2.0
TOTAL WAGE BILL PER EMPLOYEE	11.0	11.5	6.5	9.0	8.5	8.0
UNEMPLOYMENT (% LAB. FORCE)	2.1	3.5	4.5	4.0	3.5	3.5
NUMBER OF CURRENCY UNITS PER US $	6.35	7.3	7.3	7.3	7.3	7.0

Spain

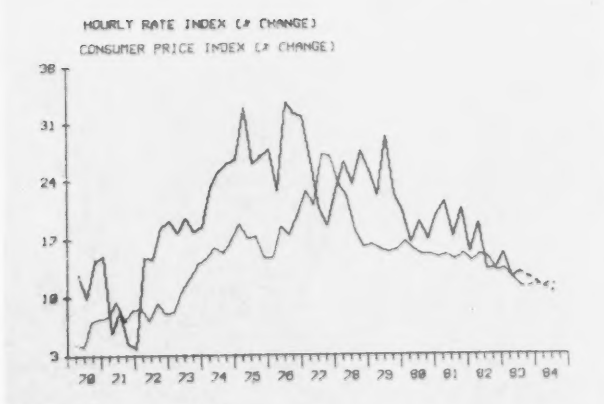
Restrictive policies support the balance of payments

Forecasters are currently divided about Spanish economic prospects for 1984. Government and other official institutions expect economic growth to pick up from an estimated 2.1 % growth rate in 1983 to 2.5 % in the following year. However, a number of non-governmental forecasters feel that Spanish GDP growth is likely to slow down to between 0.5 % and 1.5 % in 1984. The government's main objectives for 1984 include cutting the inflation rate from an expected 12 % in 1983 to 8 % at the end of 1984 while at the same time improving the balance of payments and laying the ground for economic recovery in 1984-86, thereby helping to create some 800,000 new jobs over its four year term of office. To achieve these objectives the authorities intend to restrain further the growth of money supply, to roll back the budget deficit from 6 % to 5.5 % of GDP in 1984, and to keep the growth of nominal wages within a 6.5 to 8.0 % ceiling (compared to an estimated 11.5 % in 1983). The authorities also intend to introduce legislation allowing temporary job contracts and greater labor mobility, as well as to proceed with current plans for industrial reconversion and financial reform. These policies would lift Spanish export growth to some 8 1/2 % in 1984 and chop U.S.$1.0 billion off the 1983 current account deficit of U.S.$3.5 billion. Non-governmental forecasters also expect a substantial improvement in the balance of payments but fear that higher taxes, falling real wages and high interest rates could choke off economic growth and provide a further boost for unemployment in 1984.


FUTURE CHANGE IN MANUFACTURING PRODUCTION (% BALANCE)
VOLUME OF MANUFACTURING PRODUCTION (% CHANGE)
70 71 72 73 74 75 76 77 78 79 80 81 82 83 84

Exports and consumption boost manufacturing output

According to preliminary official estimates, GDP is expected to grow 2.1 % in 1983, under the stimulus of growing exports, public investment and, to a lesser extent, private consumption, buoyed by an unanticipated decline in inflation and large social transfer payments. Agricultural output is expected to increase 2.5 % despite the fourth year of drought, while manufacturing output is expected to grow 3.1 % after a five-year period of stagnation. Most of the gains will take place in the consumer goods industries while production of investment goods will tend to decrease. Auto production rose 23 % in January-September 1983 and output of food, beverages and tobacco increased 9 % in the first five months of the year. The construction industry experienced a 1.0 % decline in 1983 and the services sectors grew 1.9 %, in line with their performance in 1982.



Unemployment rises as inflation falls

Despite a large exchange rate depreciation (24 % vis-à-vis the U.S. dollar), the consumer price index is expected to increase 12 % in 1983, 2.5 % less than in 1982, mostly as a result of lower food prices. Hourly wages rose 23 % in the first half of 1983, down 2 %, although monthly wages negotiated in collective agreements were set slightly above their 1982 level. Employment declined by about 60,000 jobs between the third quarter of 1982 and the third quarter of 1983. And following an increase in the labor force, the unemployment rate rose from 16.4 % to 17.8 %. Most jobs were lost in manufacturing and construction, while manpower needs in agriculture expanded.

	1982	AEB Nov. 1983	Banco Garriga Nogues Sept. 1983	Banco Hispano Americano Nov. 1983	Banco Urquijo Nov. 1983	Ministry of Economy Nov. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year				
		FORECAST FOR 1984				
GDP/GNP	19727	0.5	1.2	1.5	1.0	2.5
TOTAL GROSS FIXED INVESTMENT	3963	– 2.0	2.0	0.0	0.5	4.5
PUBLIC INVESTMENT	499	– 1.0	—	1.5	—	—
PRIVATE INVESTMENT	3464	– 2.5	—	– 0.2	—	—
HOUSING	1019	—	—	—	—	—
PRIVATE CONSUMPTION	13813	0.0	0.2	0.0	0.5	0.5
PUBLIC CONSUMPTION	2320	2.5	4.0	3.0	2.5	2.5
EXPORTS (of goods and services)	3661	3.5	6.3	6.5	4.5	8.5
IMPORTS (of goods and services)	4030	– 1.0	0.7	0.5	1.5	3.0
CONSUMER PRICE INDEX	14.4	10.0	12.6	9.5	9.5	8.0(2)
BALANCE OF PAYMENTS ON CURRENT A/C - (billion) $	Ptas –458 – 4.1	– 2.7	—	– 280 – 1.7	412 2.5	–425 – 2.5
CURRENCY UNIT PER US $	109.9	—	—	165	165	170

(1) Ministry of Economy and Finance (2) End 1984

Medium-term outlook : setting for slow growth

Corporate forecasters have halved their 1984 GDP growth projection to 1.5 %, an estimate which falls almost at the mid-point of the Spanish forecasts. Over the past three years, the economists surveyed have progressively downgraded Spanish economic prospects in terms of investment, output, employment and productivity. In contrast, forecasts of the inflation rate and the balance of payments have been getting more optimistic.

Corporate economists now anticipate slow GDP growth for the 1984-87 period, with slower industrial production, falling labor costs and a gradually improving balance of payments. This seems to imply that agriculture and the service sector are likely to grow relatively faster than overall output and that the improvement in Spain's external position will probably be based on slow import growth. This picture contrasts with the government's medium-term economic program which aims to raise the GDP growth rate to 3.5-4.0 % by 1986.

SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

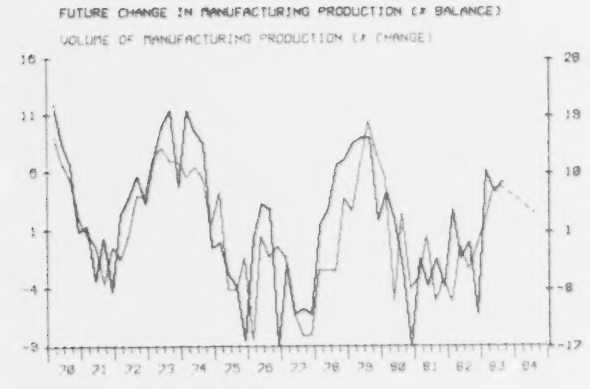
	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	0.2	0.0	1.0	2.0	1.8	1.8
GNP/GDP	1.1	0.0	1.5	2.5	1.9	2.0
GROSS FIXED PRIVATE INVESTMENT	1.0	– 1.0	0.0	3.0	1.6	2.0
PRIVATE CONSUMPTION	0.2	0.0	1.8	2.2	2.0	2.0
BP CURRENT ACCOUNT (% GNP)	2.8	– 2.4	1.0	– 1.5	0.0	0.0
CONSUMER PRICES	14.6	13.0	10.5	9.0	8.0	8.0
PRODUCTIVITY	2.5	1.5	1.8	2.0	2.0	2.5
TOTAL WAGE BILL PER EMPLOYEE	15.0	12.0	10.0	8.5	9.0	9.5
UNEMPLOYMENT (% LAB. FORCE)	16.3	17.5	18.5	18.0	18.0	17.0
NUMBER OF CURRENCY UNITS PER US $	115	148	163	163	165	160

(1) Previous forecast : year-end 1981

Sweden

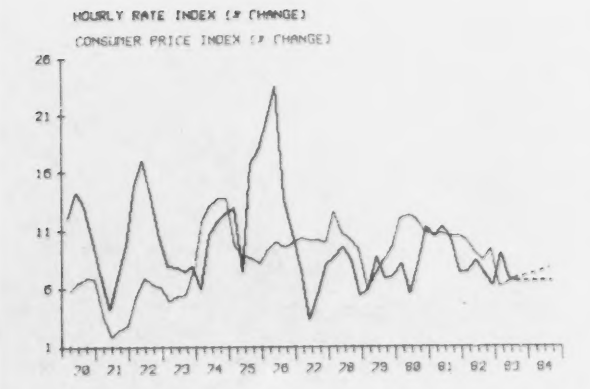
Cautious recovery in 1984

Surveys point to some recovery daring 1984 in industrial investments while private investments outside industry will remain weak. Public spending will be restrained in both 1983 and 1984 as attempts to reduce the heavy public sector deficit continue to be made. All in all, final domestic demand will decrease in both 1983 and 1984. As a consequence of a substantial eleventh hour buying spree just before both an increase in the VAT and an anticipated price rise from the 16 % SKr. devaluation in October 1982, there was a great surge in retail sales in the last quarter of 1982. However, in the first half of 1983, private consumption dropped 3.5 % below the record level of the fourth quarter of 1982 and resulted in an overall drop of 2 % for 1983 as compared to the previous year. This trend was consistent with a 1 % drop in household real disposable income coupled with a possible bolstering of a very depressed savings ratio. Prospects for 1984 indicate a continuing sluggish trend in spending. Private consumption will fall on average by 0.5 %. Private investments and residential construction shrunk during 1982 and 1983 and little if any improvement is forecast for 1984.



Unexpectedly strong increase in exports

Exports of goods have been unexpectedly buoyant during the first half of 1983. Considerably improved competitiveness has thus resulted in regained market shares. But also temporary factors have contributed to an 11.5 % volume increase between the first halves of 1982 and 1983 respectively. Export growth for the whole of 1983 is expected to be somewhat more modest. However, an increase of 9 %-10 % now seems more than likely. Prospects for 1984 are based on two assumptions: a moderate international recovery and only a moderate increase in relative prices in order to attain further growth in the 3-5 % range.



Inflation still a problem

Following the devaluation, the inflation rate has been fluctuating around 9 % - substantially below what was expected. It is obvious that the rate has not yet fully responded to the 16 % devaluation in October 1982. Import prices have accelerated lately and as the reduction of inventories is now over, an upturn in the inflation rate is likely. The consumer price index may thus rise about 9 % in 1983. The government has set a target rate in the consumer price index through 1984 to 4 % (equivalent to 6 % on a year-to-year basis) and has announced measures to comply with this target. Most crucial, however, will be the outcome of 1984 wage negotiations which for the first time in many years will be implemented on a decentralized basis.

	1982	Skandinaviska Enskilda Banken Sept. 1983	Svenska Handelsbanken Sept. 1983	Federation of Swedish industries Sept. 1983
	(Actuals: thn local currency)	Figures in real terms, percentage change on previous year		
		FORECASTS FOR 1984		
GDP/GNP (excluding oil and shipping)	620.7	2.2	2.5	1.8
TOTAL GROSS FIXED INVESTMENT	116.2	1.6	3	– 2.6
PUBLIC INVESTMENT	40.9	– 2	1	– 3.8
PRIVATE INVESTMENT (non residential)	49.1	6	—	– 0.6
HOUSING	26.2	– 2	0	– 4.2
PRIVATE CONSUMPTION	330.5	0.5	1	– 0.5
PUBLIC CONSUMPTION	184.7	1.5	1	1.1
EXPORTS (of goods and services)	202.6	6	3	3.9
IMPORTS (of goods and services)	207.6	4	2.5	1.5
CONSUMER PRICE INDEX	10.3	7	8	7.5
Balance of payments on current A/C Skr. (billion)	22.5	– 3	– 5	– 4.0
$				
CURRENCY UNIT PER US $	6.30	7.50	7.30	7.40

Medium-term outlook : moderate growth

If one compares the figures of the end-1982 survey of corporate forecasts with those collected in October-November 1983, the expected average GNP growth for the period 1983 through 1987 remains unchanged at 1.8 % per year. In the view of corporate economists, 1984 will be characterized by the continuation of the recovery which started in 1983. Thereafter, expansion will accelerate to 2.5 % in 1985 and slow down in 1986-87. The anticipated 8 % average annual increase (1983 through 1987) of the wage bill per employee is slightly lower than previously foreseen (9 %). Although inflation in 1983 was lower (about 10.7 %) than expected (12 %), the forecast for average inflation in the period 1984 through 1987 remains unchanged : 8.2 % per year. This figure is much higher than the corresponding one for the United States. However, the value of the Swedish Krone in U.S. dollars is not expected to decline.

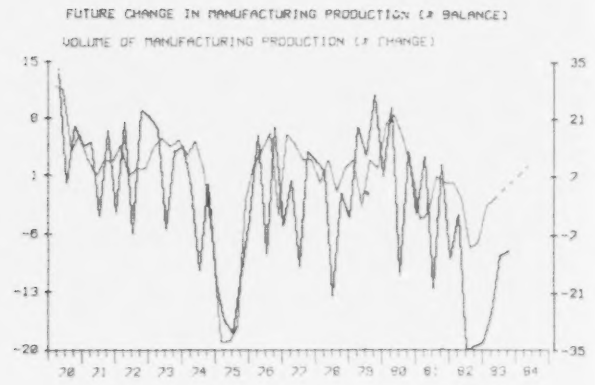
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	0.6	2.5	3.0	3.0	2.0	2.2
GNP/GDP	0.6	1.7	1.7	2.5	1.5	1.8
GROSS FIXED PRIVATE INVESTMENT	1.9	– 2.8	2.0	4.0	2.0	2.2
PRIVATE CONSUMPTION	1.1	– 2.0	0.0	2.0	1.0	0.0
BP CURRENT ACCOUNT (% GNP)	3.6	– 1.6	0.0	0.0	0.0	0.0
CONSUMER PRICES	10.3	10.7	8.0	8.5	8.0	8.0
PRODUCTIVITY	0.0	1.7	1.5	1.8	1.8	1.8
TOTAL WAGE BILL PER EMPLOYEE	8.5	8.0	8.0	8.5	8.5	8.0
UNEMPLOYMENT (% LAB. FORCE)	3.2	3.6	4.0	3.4	3.2	3.2
NUMBER OF CURRENCY UNITS PER US $	6.30	7.64	7.40	7.3	7.3	7.3

Switzerland

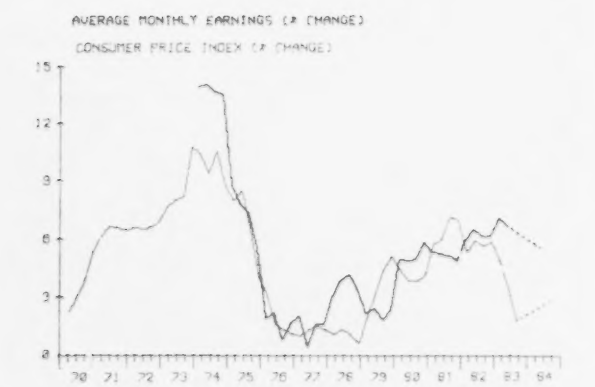
Return to growth

There is a consensus that GDP will increase slowly in 1984. Anticipated growth rates range from 1 to 2.1 %. Most forecasters believe that investment and exports will be the driving force in 1984 and that private consumption will not increase more than 1 %. This last figure contrast somewhat with recent surveys indicating a continuous upward trend in retail sales. The expectation of good export performance also conflicts with the reality of a strong Swiss currency vis-à-vis its main trading partners (mostly European countries). The expected increase in capital formation (excluding inventories) is primarily justified by more optimistic prospects in the housing sector which was declining in the first half of 1983 and recovered thereafter. In 1983 real interest rates for Euro-Swiss Franc deposits had more or less the same trend as those for Euro-dollar deposits. However, both higher nominal interest rates and rapidly falling inflation in the United States made investment in U.S. dollars more attractive than in Swiss francs which explains the depreciation of the Swiss Franc vis-à-vis the U.S. dollar. However, the U.S. inflation rate will probably not continue to be below 5 % while in Switzerland estimates are for 3 % inflation. Therefore, the main factors to explain swings in the Swiss Franc-dollar exchange rate will be the size of the U.S. budget deficit and the attitude adopted for its refinancing. A third factor may also be that Swiss authorities would tend to avoid the negative effects of too strong a currency vis-à-vis its European trade partners. Hence a SF-DM implicit linkage would best insure the external stability of the currency.



A slow recovery in 1983

Industrial production dropped by about 1.4 % in 1983. This estimate results principally from the declining trend which characterized 1982 and the low level of activity attained at the beginning of 1983. But the situation improved throughout 1983. At year end, the level of capacity utilization was the lowest in the machinery sector (especially in machine tools) and in watch making; both sectors were experiencing shrinking exports. However, output was increasing in the food, paper and chemical industries. In addition residential construction activity was boosted in the second half of 1983 by rising demand for housing, which contrasted with the recession in public works. Another sign of improvement at the end of 1983 was given by business surveys concerning retail sales: a majority of retailers reported continued growth of their sales and cash flow figures.



Lower inflation, and low, but rising unemployment

Although insignificant when compared to most other countries, unemployment in Switzerland has been rising rapidly, from 0.2 % of the active labor force in 1982 to close to 1 % at the end of 1983. The overall improvement of activity in 1983 did not prevent many Swiss corporations from being very concerned with costs and international competitiveness. The industry survey conducted by the Union Bank of Switzerland shows that in the third quarter of 1983 one third of the companies surveyed were still reducing their labor force while only 7.5 % were hiring. Cuts in personnel and reduced working hours were especially important in the machinery and in the watchmaking industries. The consumer price index increased only 3 % in 1983, compared with 5.7 % in 1982. Most forecasters agree that inflation will not accelerate in 1984, despite a 5 % to 6 % increase in monthly wages.

	1982	1983	B.A.K. Sept. 1983	Federal Institute of Technology Sept. 1983	Z.F.Z. St. Gall Sept. 1983	U.B.S. Sept. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year				
		Estimates	FORECAST FOR 1983			
GDP/GNP	196.0	0	1.0	2.1	1.0	1.0
TOTAL GROSS INVESTMENT	47.2	– 2.0	1.6	3.0	1.2	—
FIXED INVESTMENT	45.3	– 2.0		—	2.7	2.3
PLANT AND MACHINERY	13.5	– 1.8	1.5	1.0	3.0	—
CONSTRUCTION	31.8	– 2.1	2.8(1)	3.0	2.5	2.5
PRIVATE CONSUMPTION	121.9	1	0.8	1.0	0.5	1.0
PUBLIC CONSUMPTION	26.2	2.3	0.4	2.5	2.0	2.0
EXPORTS (of goods and services)	69.4	– 0.5	1.1	2.2	3.5	2.5
IMPORTS (of goods and services)	68.7	2.5	1.7	2.4	3.0	3.5
CONSUMER PRICE INDEX	5.7	3.0	3.6	2.5	3 to 3.5	2.5
Balance of payments on current A/C - (billion) SFr.	7.4	6.0	5.19	6.4	5 to 6	4.3
$						
CURRENCY UNIT PER US $	2.10	2.1	2.1	2.0	—	1.95

(1) Housing

Medium-term outlook : moderate growth to continue

Corporate economists, who anticipated the recovery of 1983, expect moderate growth to continue throughout the period 1984-1987. GNP will increase by an average 1.6 % per year, with private investment growing 2.1 % per year and private consumption only 1.5 %. Corporate forecasts imply that domestic demand will increase slowly in the next four years, thus enabling the current account balance to show a surplus equivalent to 2 % to 3 % of GNP. Inflation will remain at around 3 %, despite a 5 % to 6 % annual increase in the wage bill per employee. The Swiss franc is therefore expected to appreciate vis-a-vis the U.S. dollar. Concerning unemployment, projections are less optimistic. Corporate economists generally believe it will continue to increase throughout 1985 and will be reduced only thereafter.

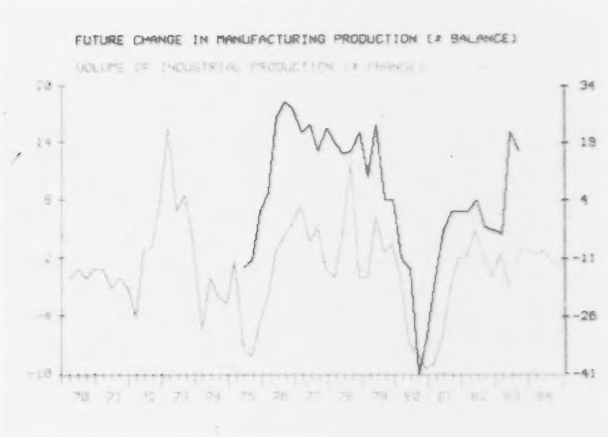
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	4.3	– 1.5	2.0	2.3	2.0	3.2
GNP/GDP	1.2	0.0	1.0	1.8	1.8	2.0
GROSS FIXED PRIVATE INVESTMENT	3.9	– 2.0	3.0	2.0	2.5	1.0
PRIVATE CONSUMPTION	0.2	1.0	0.6	1.8	1.5	2.0
BP CURRENT ACCOUNT (% GNP)	3.8	3.0	2.0	2.5	2.5	2.0
CONSUMER PRICES	5.7	3.0	2.8	3.0	3.0	3.5
PRODUCTIVITY	0.8	2.0	2.5	2.5	2.0	2.0
TOTAL WAGE BILL PER EMPLOYEE	6.3	6.0	5.5	5.0	5.0	4.5
UNEMPLOYMENT (% LAB. FORCE)	0.4	0.9	1.2	1.5	0.9	0.8
NUMBER OF CURRENCY UNITS PER US $	2.10	2.1	1.9	1.8	1.8	1.8

United Kingdom

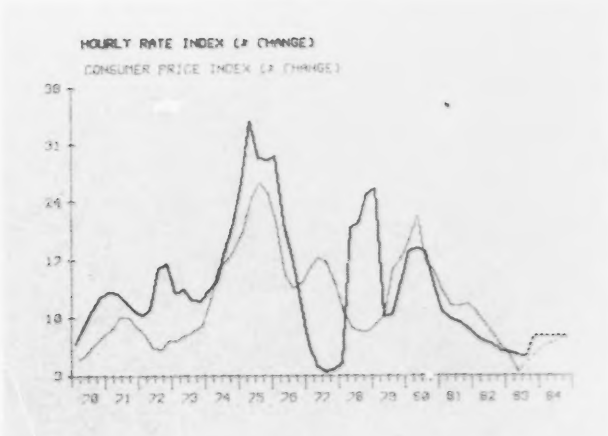
Recovery with inflation in 1984

Revised estimates of output growth show that the recovery began in early 1981 and has been progressing steadily since. In 1983 GDP managed 2 1/2 % growth, led by a consumer boom centered on such durables as cars and electrical appliances. Meanwhile inflation continued to fall to a low point of 3.7 % in mid 1983. Recovery is expected to continue into 1984, although there is a consensus that 1984 will be the peak of the present upswing. This view is confirmed by the Central Statistical Office's index of leading indicators which is pointing to a renewed downturn beginning in the second half of 1984. There is also a unanimous view that inflation will continue to accelerate, at least until mid-1984. The combined effects of lower productivity growth, higher import costs, soaring vegetable prices and some acceleration in average earnings guarantee inflation reaching at least 6-7 % in 1984 compared with less than 5 % in 1983. For the longer term there is a more marked divergence of views. The Chancellor of the Exchequer has stated his aim of achieving zero inflation. This incredibly forthright statement indicates that the government will continue to emphasize reduced inflation rather than increased output and employment as an immediate policy objective. Hence, there seems to be little short-term scope for any further tax concessions. After a surplus of nearly $ 10 bn in 1982, 1983 should be characterized by a current account close to balance. 1984 is also expected to show a small surplus. However, the predictions of impending deficits which were widespread a short while ago have largely disappeared - partly because of significant revisions to the statistics.



Continuing consumer boom

The retail sales boom which began in mid-1982 continued in 1983 with retail sales showing 5 % volume growth and durable goods sales a 10 % increase. Although there are forecasts that a rising savings ratio will soon abort the boom, there are few signs of this happening yet. Revised statistics show that industrial production has not been as slow to respond to higher spending as had earlier been thought. Surveys of business confidence show that the improved level of optimism apparent since the beginning of 1983 is being maintained. Continuing small falls in the effective exchange rates and real interest rates should sustain recovery for some months yet. The underlying trend in unemployment may have turned downwards after four years of increases.



Inflation accelerates again

The low figure of 3.7 % recorded for consumer price inflation in mid-1983 was a freak due to erratically low seasonal food prices and to the disproportionate impact of lower mortgage interest rates. Seasonal food prices are already helping to push inflation higher again. The decline in average earnings also seems to have ended, partly due to a boost from increased overtime work, but also because the need for very low wage settlements has receded. Despite sharp rises in non-oil commodity prices - which are currently 25 % higher than a year ago - industry's total material cost increases have been held below 10 %. Further productivity gains mean that average production cost increases may be held to 5 %-6 %. Money growth continues at the upper end of its 7 %-11 % target range - consistent with a rate of inflation rather higher than at present.

	1982	1983	Philips and Drew Sept. 1983	Simon & Coates Oct. 1983	DRI Nov. 1983	LBS Nov. 1983
	Actuals (in local currency)	Figures in real terms, percentage change on previous year				
		Estimate	FORECAST FOR 1984			
GDP/GNP	233	2.3	1.8	1.6	2.2	2.4
TOTAL GROSS FIXED INVESTMENT	44	2.2	3.9	3.9	4.6	4.4
PUBLIC INVESTMENT	12	4.7	4.0	—	—	3.7
PRIVATE INVESTMENT	28	1.3	3.8	—	—	5.1
HOUSING(1)	4	8.5	6.1	—	—	1.4
PRIVATE CONSUMPTION	163	2.7	1.7	0.1	0.6	2.0
PUBLIC CONSUMPTION	58	2.4	0.7	0.5	0.5	0.3
EXPORTS (of goods and services)	87	1.8	4.1	4.6	5.1	3.1
IMPORTS (of goods and services)	82	3.9	3.1	3.6	3.5	3.8
CONSUMER PRICE INDEX	8.4	4.7	6.2	6.6	6.8	5.9
Balance of payments on current A/C - (billion) $	9.5	0.5	—	3.1	3.2	0.5
CURRENCY UNIT PER US $	0.57	0.65	0.633	0.59	0.65	0.63

(1) Housing.

Medium-term outlook: slow growth

Corporate economists expect the cyclical upswing to continue into 1984, but are more cautious about long run prospects. Output is expected to continue expanding in the medium-term, but at a modest 1 % average annual rate. The present recovery is also expected to be accompanied by a resurgence of inflation, with wages and prices accelerating to around 10 % through the period 1983 to 1987. These figures are considerably more pessimistic than those of the major forecasting institutions, most of whom do not expect inflation to exceed 8 % at any point. This survey was one of the first to expect a fall in unemployment in 1984, although the predicted fall is still much larger than that of any major forecaster. However, the prospect of low medium-term growth dictates a resumption of the upward trend in unemployment in 1985.

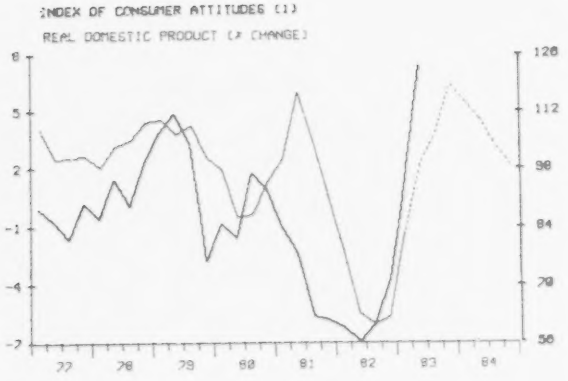
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	2.1	2.1	2.2	1.6	1.1	2.0
GNP/GDP	2.3	2.3	2.5	1.5	1.3	2.0
GROSS FIXED PRIVATE INVESTMENT	8.7	2.2	3.0	3.7	3.9	3.0
PRIVATE CONSUMPTION	1.3	2.7	1.0	2.1	1.0	2.0
BP CURRENT ACCOUNT (% GNP)	0.2	0.1	0.0	0.0	0.0	0.0
CONSUMER PRICES	8.4	4.7	7.5	9.0	9.5	9.5
PRODUCTIVITY	2.8	2.5	2.0	1.5	1.8	2.0
TOTAL WAGE BILL PER EMPLOYEE	8.1	6.0	7.0	9.0	10.5	10.0
UNEMPLOYMENT (% LAB. FORCE)	11.7	12.5	12.1	12.5	12.7	12.9
NUMBER OF CURRENCY UNITS PER US $	0.57	0.65	0.65	0.56	0.56	0.57

Canada

A cyclical upswing

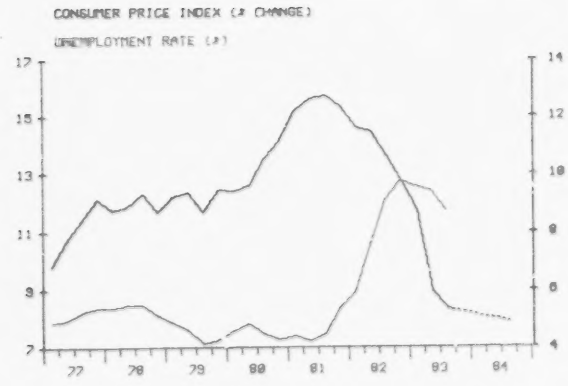
All evidence now confirms the view that the Canadian economy entered the early stages of a recovery at the beginning of 1983. In view of the depth of the recession, the cyclical upswing promises to be quite rapid in its initial phases. Aided by export growth to the United States (especially lumber and automobiles), the recovery is being driven by three factors - inventories, housing and purchases of durable goods. The trade sector is moving counter cyclically at present, reflecting the growth in exports and the weak import demand associated with domestic conditions. With inflation expected to be close to 5 % in 1983 and with unemployment currently in excess of 12 %, policy is now being directed towards job creation. The recent federal budget contained additional spending on capital projects with a high job creation potential. It is clear that only concerns about financing the deficit (presently 5.5 % of GNP) inhibited even more government spending. The shift in emphasis in monetary policy from the money supply to the exchange rate means that Canadian interest rates will parallel U.S. rates fairly closely. Nominal rates in both countries have fallen but not as much as inflation, and the resulting high real interest rates are becoming a threat to a sustained recovery.



(1) Compiled by the Conference Board of Canada.

Consumer confidence soars

The recession had a devastating effect on consumer psychology. Consumer confidence plummeted to an all-time low and the personal savings rate rose to unprecedented levels. Lower interest rates and inflation combined with stability in the labor market have led to a resurgence in consumer confidence. As a result, the durable goods are already in a replacement phase as consumers run down savings to take advantage of tax breaks and consumer financing. However, the business sector is still suffering from the aftershock of the recession and is not going to be in a position to increase real investment expenditures until 1985 at the earliest.



Labor costs now under control

Canada has finally completed its adjustment of domestic energy prices to world levels and the expected stability of world oil prices will give consumers a welcome respite from energy and cost inflation. The recession had a marked but lagged effect on wage settlements which are now in the range of 5 % - a far cry from the double digit settlements that characterized 1982. With public sector wages still subject to controls, wage costs are not going to be a major inflationary source in 1984. These developments, combined with low U.S. inflation, mean that the increase in the consumer price index averaged 5.4 % in 1983 and under 5 % in 1984. The reduction in inflationary pressures may have been achieved at the expense of the unemployment rate, which at 12.2 %, is only expected to decline to 11.6 % by the end of 1984.

	1982	The Conference Board of Canada Dec. 1983	Data Resources of Canada Dec. 1983	Chase Econometrics Canada Dec.1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year		
		FORECASTS FOR 1984		
G.N.P.	130.1	2.7	5.1	4.1
BUSINESS CAPITAL FORMATION(1)	24.9	– 3.4	5.6	4.0
HOUSING STARTS (thousands)	130	172	194	173
PRIVATE CONSUMPTION	81.2	2.5	4.4	4.0
GOVERNMENT EXPENDITURES	23.2	1.8	2.2	0.9
EXPORTS (goods & services)	33.2	4.9	7.2	8.3
IMPORTS (goods & services)	33.1	5.5	11.0	9.8
CONSUMER PRICE INDEX (change)	10.8	4.9	5.3	5.6
UNEMPLOYMENT RATE	11.1	11.0	10.7	10.6
BALANCE OF PAYMENTS ON CURRENT A/C ($ Cd. billion)	3.0	3.9	2.6	0.7
CURRENCY UNIT PER US $	1.234	1.230	1.222	1.245

(1) Plant and Equipment

Medium-term outlook : real interest rates a problem

With the cyclical recovery well under way and the inventory adjustment process expected to last into 1984, attention is now being focussed on those conditions necessary for a cyclical rebound to mature into a sustained recovery. They are low inflation, new investment and ongoing employment and income growth. The first condition will be easily met. However, high real interest rates will continue to inhibit business investment and consumer spending (e.g. in Canada, unlike in the United States, households cannot deduct interest costs from taxable income), thus casting a large shadow over the other conditions. If real interest rates remain close to their present levels, the Canadian economy will be unable to generate sufficient growth to bring the unemployment rate below 11 % for several years to come.

MEDIUM TERM OUTLOOK (% change in real terms on previous year)

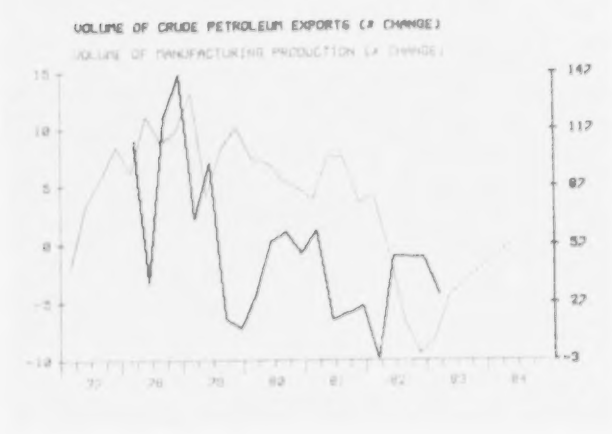
	1982	1983	1984	1985	1986	1987
GNP	4.4	3.0	2.7	0.9	1.4	2.6
GROSS FIXED BUSINESS CAPITAL FORMATION	13.6	– 10.8	3.4	– 0.4	0.8	3.6
RESIDENTIAL CONSTRUCTION	23.1	18.6	0.5	0.6	1.9	2.6
GOVERNMENT EXPENDITURES	0.5	0.2	1.8	1.5	1.6	1.6
EXPORTS (goods & services)	1.6	4.4	4.9	3.8	3.5	2.6
IMPORTS (goods & services)	11.3	5.3	5.5	0.8	1.1	4.2
CONSUMER PRICE INDEX	10.8	5.8	4.9	5.1	4.7	4.1
CURRENT ACCOUNT ($ Cd. Billion)	3.0	3.2	3.9	2.6	3.1	2.6
UNEMPLOYMENT RATE	11.1	12.1	11.0	11.6	11.7	11.5
NUMBER OF CURRENCY UNITS PER US $	1234	1230	1222	1208	1187	1162

Source : the Conference Board of Canada

Mexico

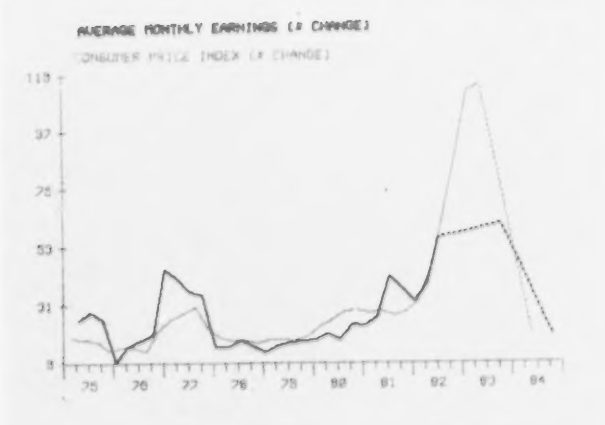
Regaining internal and external equilibrium

Owing to a serious economic and financial crisis, Mexico, in agreement with the International Monetary Fund (IMF), began a three year stabilization program in 1983. Its purpose is to reduce real aggregate consumption and investment in order to regain both domestic and external equilibrium. The IMF program set a target of zero growth in 1983 and 3 % in 1984, following an assumed 2 % growth rate for 1982. The public sector deficit, as a percentage of GDP, was to be reduced from 17 % in 1982 to 8.5 % in 1983 and 3.5 % in 1985. The external imbalances were to be corrected by reducing the current account deficit to $ 3.4 billion in 1983, down from $ 12.544 billion in 1981. To achieve these targets, savings are to be increased in both the public and private sectors by use of deflationary measures. The purpose of the reduction in the public sector deficit and the devaluation of the peso is to decrease imports and increase exports. The monetary policy measures employed at present are a rigorous control of the money supply coupled with high interest rates. Fiscal policy is supported by significant upward price adjustments in the public sector while maintaining a dual exchange rate. The « free » rate has remained fixed with a substantial degree of under valuation until September 23, while the « controlled » rate, although constantly « sliding », has provided cheaper dollars to protect the balance sheets of companies and to reschedule debts to longer terms, as well as to reduce the cost of servicing some of the private debts, with exchange risk coverage in pesos provided by the Bank of Mexico. As a result, pressures in foreign exchange markets were eased and were further reduced by the massive rescheduling of the $ 20 billion of public foreign debt that is due between August 1982 and December 1984.



Decreasing imports

An official preliminary estimate that GDP declined by 0.2 % in 1982 was revised downwards, to 0.5 % since present trends show a drop of 1.7 % in industrial and 4 % in manufacturing outputs. The figures through August 1983 indicate a decrease of 8.9 % in industrial output, even though electricity and petroleum - two of the state-run industries - are expanding. Consequently, imports have fallen sharply by 53 %, and exports have increased slightly by 3.1 % resulting in a trade surplus of $ 9.6 billion through September 1983. Deducting the nearly $ 5 billion deficit in services (i.e. tourism, border transactions, etc.), the current account surplus was $ 3.3 billion through June 1983.



Inflation eroding the peso devaluation

The main result of the current account surplus is that the international reserves of Mexico rose to $ 4.475 billion in September 1983, from $ 1.833 billion in December 1982. Further increases in the second quarter allowed loans from the Bank for International Settlements and the Federal Reserve Bank of New York to be repaid. The main short term problem is still sharply increasing prices. This is rapidly undermining the effects of the peso devaluation. The Government is meanwhile encouraging the rescheduling of the private debt, and is determined to reduce inflation before adopting a single « free » market exchange rate. When this and the removal of the control of capital movements can be achieved is still uncertain.

	1982	Business International Sept. 1983	Government Sept. 1983	Wharton Econometrics Sept. 1983
	Preliminary (in local currency)	Figures in real terms, percentage change on previous year		
		FORECASTS FOR 1984		
GDP/GNP	9417	0.0	0 to 1	2.9
TOTAL GROSS FIXED INVESTMENT	2108	n.a.	1 to 2.6	5.4
PUBLIC INVESTMENT	1008	n.a.	5.0	1.1
PRIVATE INVESTMENT	1100	n.a.	n.a.	9.1
CONSTRUCTION	667	n.a.	0.5 to 0.3	4.2
PRIVATE CONSUMPTION	5590	n.a.	0.3 to 0.4	1.3
PUBLIC CONSUMPTION	1079	n.a.		1.0
EXPORTS (of goods and services)	21.0(1)	20.5(1)	6.5 to 8.5	20.9(1)
IMPORTS (of goods and services)	14.4(1)	14.1(1)	9 to 10	15.4(1)
CONSUMER PRICE INDEX	58.9	60.0	50.0	48.4
Balance of payments on current A/C (billion) $	2.7	n.a.	n.a.	– 1.9
CURRENCY UNIT PER US $	148.5(2)	240.0	213.8	170.3

(1) Billion US $ (2) Change in the US $ value of Export/Import (3) End of period

Medium-term outlook: moderate growth still possible

ECANAL still expects the 1983 decline in GDP to be nearer 6 % and predicts no more than zero growth in 1984. The recovery itself is predicated on reactivating the private sector in which profits and investment will remain depressed well into 1984. The government may attempt by public sector spending to expand the economy, which could cause new domestic and external disequilibrium by 1985. Given a weak private sector, the investment needed to sustain even a moderate rate of growth, without increasing inflation, from 1984 onwards can only be obtained from foreign direct investment, since resort to more foreign loans is impossible. To achieve a satisfactory rate of growth requires decisions on two major policy issues: how to increase the interplay of the private and public sectors in this mixed economy (for this helps to determine the magnitude of the role to be played by private domestic and foreign resources); and how to attract a larger volume of equity capital in the form of foreign direct investment essentially from multinational companies. To date, no clear government policies have emerged. And yet for the medium term outlook, the total investment available and the strength of the recovery will be determined by the resolution of these two all-important policy issues.

MEDIUM TERM OUTLOOK (% change in real terms on previous year)

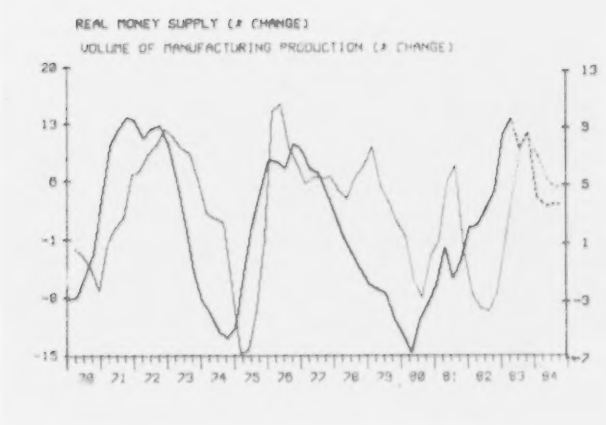
	1982	1983	1984	1985	1986	1987
GDP	0.2	– 6.0	0.0	2.5	5.5	6.0
INDUSTRIAL PRODUCTION	– 1.7	– 12.0	0.5	6.0	8.5	9.5
MANUFACTURING PRODUCTION	– 4.0	– 16.0	1.0	7.0	9.0	11.0
GROSS FIXED PRIVATE INVESTMENT	20.0	25.0	5.0	10.0	15.0	15.0
PRIVATE CONSUMPTION	– 1.5	– 5.0	1.5	6.0	7.0	7.0
BP CURRENT ACCOUNT (billion US $)	2.7	2.7	2.5	3.0	2.0	2.0
EXPORTS (billion US $)	21.0	20.0	24.0	29.0	31.5	35.0
IMPORTS (billion US $)	14.4	11.2	15.8	23.0	26.5	31.0
CONSUMER PRICES	58.9	101.1	20.0	9.0	5.0	5.0
PRODUCTIVITY	1.0	3.0	4.0	3.0	2.8	2.5
REAL WAGE	25.0	– 20.0	5.0	3.0	6.0	6.0
UNEMPLOYMENT (% LAB. FORCE)	10.7	11.9	12.7	14.2	15.5	16.7
NUMBER OF CURRENCY UNITS PER US $	150	150	170	175	176	176

Source: ECANAL – MEXICO

U.S.A.

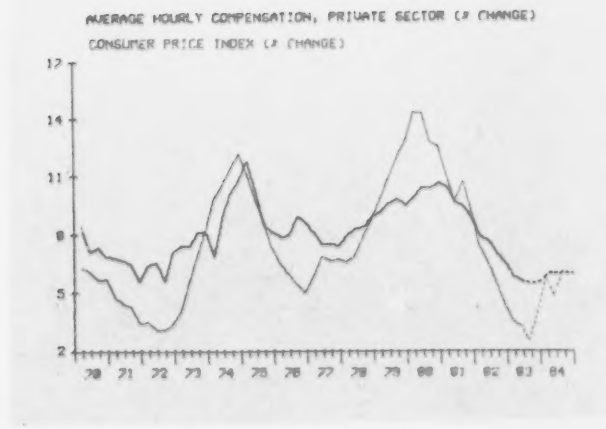
A new but unbalanced business cycle begins

The U.S. economy is finally on the expansion track. Following 3 years of slow growth mixed with outright recession, a strong consumer-led recovery developed in the first half of 1983. The consensus view is that there is sufficient pent-up demand for furniture, appliances, cars and homes to keep the recovery going through the second half of 1983 and on into 1984. However, because of the severity of the downturn, even two full years of expanding production would not bring about complete recovery. Although the economy's resurgence will undoubtedly help to shrink the federal government deficit, very large deficits remain in prospect for 1983 and 1984, and beyond, unless current taxing and spending plans are substantially altered - not very likely in a general election year. There is concern that strong business borrowing (to finance recovering capital investment), coupled with the large federal credit requirements will heat up the competition for funds. Interest rates were moving higher in Summer 1983 and the prospect is that they may not decline very much in 1984. High interest rates and low inflation rates are also helping to maintain the very high value of the dollar in international exchange. That, in turn, is limiting U.S. exports, while the domestic recovery is generating more demand for imports. As a result, the trade deficit is reaching record levels in 1983, and it will probably widen considerably in 1984.



Industrial activity gathers momentum

Industrial production can be expected to rise very sharply in the second half of 1983, perhaps by a 15 % annual rate, to satisfy both demand and inventory rebuilding. This implies that demand for raw industrial materials is likely to intensify, putting pressure on commodity prices to rise in those prices implies an appreciation of inventory, partly offsetting the interest costs of carrying stocks. An increase rising trend in raw material prices might then become self-sustaining unless blocked by further increases in interest rates. Since business was cautious in stepping up production schedules, shortages have begun to occur. However housing starts rose from a 1 million annual rate in August to 1.8 million in March 1983. High mortgage rates in the last half of 1983 and in 1984 will keep the starting rate under 2 million for the year.



Inflation fires dampened

The rise in consumer prices dropped from a 16 % annual rate in the first quarter of 1980 to 2 % in the fourth quarter of 1982, and the consumer price index declined in the first quarter of 1983. Forecasts for inflation this year range from 4.1 % to 4.9 %. These forecasts imply that inflation will remain well-behaved in the short term. The rise in raw material prices is going to speed up, but accelerating labor costs are the real fuel for rampant inflation, and the outlook is for continued small increases. An average wage gain of less than 6 % and a productivity rate of more than 2 % are attainable under current conditions and would keep the rise in both unit labor cost and prices under 4 % in 1983. However, even, if wage gains run a little higher in 1984, inflation could still be below 6 %.

	1982	1983	The Conference Board, Inc. Sept. 1983	Chase Econometrics As., Inc. Sept. 1983	Data Resources, Inc. Sept. 1983	Wharton E.F.A., Inc. Sept. 1983
	Actuals (bn local currency)	Figures in real terms, percentage change on previous year				
		Estimates	FORECAST FOR 1984			
GDP/GNP	1485.4	3.4	5.5	5.2	5.3	5.7
GROSS FIXED INVESTMENT						
FIXED INVESTMENT						
PLANT AND MACHINERY	166.1	0.3	9.2	7.9	9.3	6.1
HOUSING	37.8	39.8	9.0	9.0	10.8	16.6
PRIVATE CONSUMPTION	970.2	4.3	4.2	4.5	4.2	4.4
PUBLIC CONSUMPTION	291.8	0.7	3.3	3.0	2.9	4.3
EXPORTS (of goods and services)	147.3	– 5.2	4.6	4.8	4.8	4.3
IMPORTS (of goods and services)	118.4	6.8	7.9	10.4	10.3	6.9
CONSUMER PRICE INDEX	206.9	4.2	5.6	4.9	4.4	5.0
Balance of payments on current A/C - (billion) $	– 11.2	45.0				

Medium-term outlook: low growth, low inflation

The current expansion phase of the business cycle is expected to continue through the medium-term, with real output growth of about 2.5 % per year through 1987 while inflation stays below 8 %. At the moment, higher consumer demand is the driving force in the expansion. This surge in consumer activity will probably begin to slow by late 1984 or so. Business investment in capital goods, however, ought to be able to make up the difference and keep the expansion going. Any reduction in interest rates can only aid in the transition from consumer-led recovery to investment-sustained expansion. Any workable agreement on reducing the federal deficit would help reduce the uncertainty premium built into current interest rates. A key assumption in the medium-term outlook is that productivity will continue to rise by about 2 % per year through 1987, which will restrain the rise in unit labor costs and thus in prices.

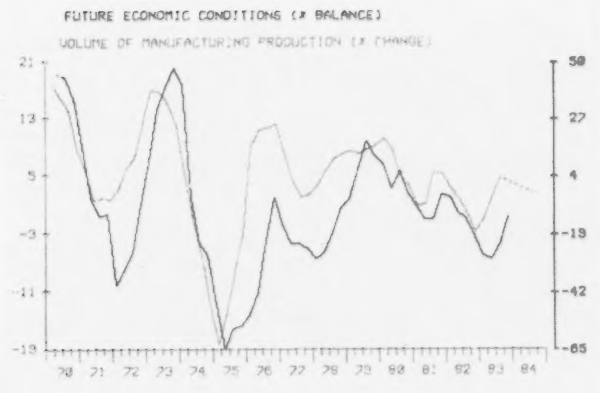
SURVEY OF CORPORATE FORECASTS (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	– 8.2	6.5	6.5	3.0	3.0	1.0
GNP/GDP	– 1.9	3.4	3.8	2.5	2.0	2.0
GROSS FIXED PRIVATE INVESTMENT	– 6.3	5.8	6.5	3.5	2.5	4.0
PRIVATE CONSUMPTION	1.4	4.2	3.4	2.5	2.6	2.5
BP CURRENT ACCOUNT (% GNP)	– 0.75	3.0	0.0	– 3.0	– 3.0	0.0
CONSUMER PRICES	6.1	3.2	5.0	5.5	7.0	5.5
PRODUCTIVITY	0.5	4.0	2.8	2.0	1.8	1.8
TOTAL WAGE BILL PER EMPLOYEE	7.3	5.0	6.5	8.0	7.0	6.6
UNEMPLOYMENT (% LAB. FORCE)	9.7	9.8	8.2	8.4	8.4	8.5

Japan

A strengthening in 1984

The consensus is that economic expansion will accelerate slightly in the coming year. GNP is expected to grow 3 % to 4 % in 1984, after a 3.3 % increase in 1983. Private investment will recover, especially in the housing sector, and private consumption will also be an important growth factor. A problem of the Japanese economy is the size of the public budget deficit which rose rapidly in the late seventies and the beginning of the eighties, to about 5 % of GNP in 1983. Up until now, a high savings ratio has prevented this deficit from affecting interest rates. However, in the medium-term, it is likely that the savings ratio will drop and that, then, public sector borrowing requirements may well generate higher interest rates and create competition with corporate borrowing requirements. Another problem is revitalizing basic material industries. Although specific policies regarding these questions remained unclear until recently, it seems to be agreed that private domestic demand will play a more important role in future economic growth. Such a development will not permit too large a public budget deficit; hence, it will have to be reduced. The question of interest rates is also linked to external payments. The trade and current account surpluses cannot offset the large deficits in long-term capital movements which accounted for the weakness of the yen. At the end of 1983, it appeared more clearly that in the years to come Japanese economic policy will aim at strengthening the yen (or at least at limiting its erratic behavior vis-à-vis the U.S. dollar) and thus bolstering its international role.



Growth accelerating at the end of 1983

Due to the low level of industrial output attained at the end of 1982, there was not much growth in the statistical figures for the first half of 1983. However, manufacturing output showed a substantial increase at the end of 1983 compared with the previous year. In October 1983 compared with October 1982, the index of industrial production showed a 8.7 % increase, while the index of manufacturing deliveries was up 8.3 % and the index of inventories was down 6.3 %. It is often stated that exports are the only driving force behind Japan's economic growth, but in 1983 both private consumption (+ 3.2 %) and exports (+ 3.5 %) played an important role. Another important feature in 1983 was the slight decrease in investment. In addition the deflator of investment was reduced by 1 %. This means an increased proportion of fixed capital was formed in the sectors such as microelectronics, robotics, etc., where prices have been dropping by as much as 40 % per year.

Low inflation and low unemployment

Inflation has been decreasing very rapidly in recent years. It was 7.7 % in 1980, 5.1 % in 1981, 2.7 % in 1982 and less than 2 % in 1983. In the second half of 1983 the strengthening of the yen against the U.S. dollar resulted in lower import prices - principally oil prices - and in reduced wholesale prices (– 4 % in October 1983 compared with October 1982). However, forecasters, in general, do not believe inflation will continue to shrink further in 1984. And in Japan there seems to be a consensus that inflation will be slightly higher in 1984 than in 1983. Average earnings increased 4 % in 1983 (i.e. 1 % less than in 1982) and the prospects for 1984 are the same. Due to lower industrial activity, the unemployment rate rose from 2.2 % in 1981 to 2.4 % in 1982 to 2.7 % in the first quarter of 1983. However, since then, the recovery permitted a reduction in the unemployment rate to 2.5 % at the end of 1983.

	1982		1983	Chase Econometrics Sept. 1983	Daiwa Securities Res. Inst. Oct. 1983	Mitsui Oct. 1983	Kredietbank Oct. 1983
	Actuals (tr. local currency)		Figures in real terms, percentage change on previous year				
			Estimates	FORECAST FOR 1984			
GDP/GNP	263.9		3.2	2.8	4.3	3.6	3.0
TOTAL GROSS FIXED INVESTMENT	78.2		− 0.5	—	4.0	2.5	2.0
PUBLIC INVESTMENT	24.2		− 1.1	1.7	0.5	0.5	—
PRIVATE INVESTMENT	39.0		− 008	3.4	4.6	3.7	—
HOUSING	15.0		− 2.1	4.2	7.9	2.4	—
PRIVATE CONSUMPTION	155.4		1	3.6	3.3	3.3	3.0
PUBLIC CONSUMPTION	27.2		2.3	1.7	2.9	0.8	2.0
EXPORTS (of goods and services)	44.5		− 0.5	6.9	8.1	5.7	4.0
IMPORTS (of goods and services)	42.4		2.5	4.6		3.8	3.5
CONSUMER PRICE INDEX	2.7		3.0	1.7	2.5	3.0	1.4
Balance of payments on current A/C - (billion)	$ 7		19	—	27.3	26	20
CURRENCY UNIT PER US $	249.08		237.5	—	—	230	225

Medium-term outlook: domestic demand to play an increased role

As in the previous issue of this Economic Overview (February 1983), medium-term prospects are that economic expansion in Japan in the coming 4 years will be more domestically oriented than during the past decade. This is in sharp contrast with the prospects for most other countries included in this report - especially European countries. Hence, in Japan, private consumption is expected to increase 3 % to 3.5 % per year through 1987 and gross fixed investment by a yearly average of 3.6 %. More domestically oriented growth would help reduce large deficits in long-term capital movements which result from the all important savings ratio and, hence, very low interest rates in comparison with other countries. Additionally, it would help to strengthen the currency and alleviate the impact of erratic changes in raw material and other commodity prices.

MEDIUM TERM OUTLOOK (% change in real terms on previous year)

	1982	1983	1984	1985	1986	1987
INDUSTRIAL PRODUCTION	1.0	1.6	2.5	3.5	3.0	2.5
GNP/GDP	2.5	3.2	3.6	4.5	4.0	3.5
GROSS FIXED PRIVATE INVESTMENT	0.5	− 0.5	2.5	6.5	3.5	2.0
PRIVATE CONSUMPTION	3.5	3.2	3.3	3.5	3.0	3.0
BP CURRENT ACCOUNT (% GNP)	0.5	1.6	2.0	0.5	0.5	1.0
CONSUMER PRICES	2.5	1.9	3.0	3.0	4.0	4.0
PRODUCTIVITY	1.5	2.0	3.0	3.5	3.0	2.5
TOTAL WAGE BILL PER EMPLOYEE	5.0	4.1	4.0	4.0	3.0	3.0
UNEMPLOYMENT (% LAB. FORCE)	2.5	2.8	2.0	2.0	2.5	2.5
NUMBER OF CURRENCY UNITS PER US $	257	237	220	200	200	200

Source: projection by Mitsui & co ltd. Tokyo.

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